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**UNITED STATES DISTRICT COURT**  
**DISTRICT OF NEVADA**

OTILDA LAMONT, Derivatively on  
Behalf of CANNAVEST CORP.,

Plaintiff,

v.

MICHAEL MONA, JR., BART P.  
MACKAY, and LARRY RASKIN,

Defendants,

and

CANNAVEST CORP., now known as  
CV Sciences, Inc.

Nominal Defendant.

Case No.: 2:15-cv-00481-RFB-VCF

**THIRD AMENDED  
SHAREHOLDER DERIVATIVE  
COMPLAINT**

Plaintiff Otlida Lamont (“Plaintiff”), by and through her undersigned counsel, derivatively on behalf of Nominal Defendant CannaVest Corp., now known as CV Sciences, Inc. (“CannaVest” or the “Company”), submits this Third Amended Shareholder Derivative Complaint (the “Complaint”). Plaintiff’s allegations are based upon her personal knowledge as to herself and her own acts, and upon information and belief, developed from the investigation and analysis by Plaintiff’s counsel, including a review of publicly available information, including filings by CannaVest with the U.S. Securities and Exchange Commission (“SEC”), press releases, news reports, analyst

1 reports, investor conference transcripts, publicly available filings in lawsuits, and  
2 matters of public record.

3 **NATURE OF THE ACTION**

4 1. This is a shareholder derivative action brought in the right, and for the  
5 benefit, of CannaVest against certain of its officers and directors seeking to remedy the  
6 Individual Defendants' (as defined below) breach of fiduciary duties and gross  
7 mismanagement that occurred from May 20, 2013 through the present (the "Relevant  
8 Period") and have caused substantial harm to CannaVest.

9 **JURISDICTION**

10 2. This Court has jurisdiction over the claims asserted herein under 28 U.S.C.  
11 § 1332 because there is complete diversity among the parties and the amount in  
12 controversy exceeds the sum of \$75,000, exclusive of interest and costs.

13 3. Venue is proper in this Court because the Company maintains its executive  
14 office in this county, a substantial portion of the transactions and wrongs complained of  
15 herein occurred in this county, and the Individual Defendants have received substantial  
16 compensation in this county by doing business here and engaging in numerous activities  
17 that had an effect in this county.

18 **THE PARTIES**

19 4. ***Plaintiff Otilda Lamont*** ("Lamont") is, and was at relevant times, a  
20 shareholder of CannaVest. Plaintiff Lamont will fairly and adequately represent the  
21 interests of the shareholders in enforcing the rights of the corporation. Plaintiff Lamont  
22 is a resident of the State of New York. Plaintiff Lamont first purchased the common  
23 stock of CV on February 24, 2014, she has held the common stock of CV continuously  
24 to the present date, she is a current holder of CV common stock, and it is her intention to  
25 continue to hold the common stock of CV until the conclusion of this matter.

26 5. ***Nominal Defendant CannaVest*** manufactures, markets, and sells products  
27 containing industrial hemp-based compounds, including cannabidiol (CBD), one of the  
28 cannabinoids found in hemp. CannaVest is incorporated in Delaware and

1 headquartered at 2688 South Rainbow Blvd., Suite B, Las Vegas, Nevada 89146.  
2 Further, because CannaVest is incorporated in Delaware, Delaware law applies.

3 6. Article III of CannaVest's Certificate of Incorporation states: "The purpose  
4 of the Corporation is to engage in any lawful act or activity for which a corporation may  
5 be organized under the General Corporation Law of Delaware ("DGCL").

6 7. ***Defendant Michael Mona, Jr.*** ("Mona") was, at all relevant times, the  
7 President, Chief Executive Officer ("CEO") and a Director of the Company. Defendant  
8 Mona was appointed as President, Secretary and Treasurer of the Company on  
9 November 16, 2012, and as a Director on January 28, 2013. Defendant Mona resigned  
10 as Secretary and Treasurer and was appointed CEO on July 25, 2013. Defendant Mona  
11 is a resident of the State of Nevada. Defendant Mona is also a member of Roen  
12 Ventures, LLC ("Roen Ventures").

13 8. Before becoming President of CannaVest in November 2012, Mona, Jr. was  
14 associated with Medical Marijuana, Inc. A corporate brochure published by CannaVest  
15 states that "Mr. Mona worked as a consultant to Medical Marijuana Inc. until early 2013  
16 when he was named President and CEO of CannaVest Corp." See also Thomas H.  
17 Clarke, "Hemp Oil Hustlers: Project CBD Investigates Makers of RSHO," The Daily  
18 Chronic at 12 and n.52 (Oct. 15, 2014) (citing SupplySide West 2014 expo list of  
19 speakers, Side West website). During the Relevant Period, Mona, Jr. was a 4% owner of  
20 Medical Marijuana, Inc.

21 9. According to the Company's SEC filings, "Mr. Mona possesses over 25  
22 years of experience in the field of construction, investments and project development,  
23 holding various senior positions in these fields since 1987. Since 1994, Mr. Mona has  
24 served as the President of M&M Development, Inc. and in such role has overseen the  
25 construction and operation of various apartment projects, hotels and recreational vehicle  
26 parks throughout Las Vegas, Nevada." Mona, Jr.'s son, Michael Mona, III ("Mona III")  
27 was appointed Vice President of Operations at CannaVest on or about July 25, 2013.

28

1 Prior to joining the Company, Mona III was Vice President, Product Development for  
2 Medical Marijuana, Inc., and was responsible for the development and testing of hemp-  
3 based products.

4 10. On November 16, 2012, non-parties Mai Dun Limited, LLC, Mercia  
5 Holdings, LLC, General Hemp, LLC and Bamburgh Holdings, LLC (the “Buyers”),  
6 acquired a total of 6,979,900 shares of the Company’s common stock in a series of  
7 private transactions. Upon consummation of the transactions, the Buyers collectively  
8 acquired 99.7% of the Company’s total issued and outstanding shares of common stock.

9 11. ***Defendant Bart P. Mackay*** (“Mackay”) has been a Director of the  
10 Company since March 14, 2013. As of May 31, 2013, Mackay beneficially owned  
11 64.3% of CannaVest’s common stock. As of March 28, 2014, MacKay owned 54.29%  
12 of the Company’s common stock.

13 12. Mackay, a member of the CannaVest Board, both individually and through  
14 Mackay Ventures LLC (formerly Mackay Ventures, Inc.), was during the Relevant  
15 Period the sole member of each of Mai Dun Limited, LLC and Mercia Holdings, LLC,  
16 which each own a 50% interest in Roen Ventures LLC (“Roen Ventures”).

17 13. As of June 27, 2014, Mackay Ventures, Inc. owned 1,100,000 shares of  
18 CannaVest’s common stock. Mercia Holdings, LLC and Mai Dun Limited, LLC are  
19 members of Roen Ventures. Defendant Mackay, the manager of Roen Ventures and Mai  
20 Dun Limited, LLC and the sole shareholder, officer and director of MacKay Ventures  
21 Inc., is deemed to have shared voting and investment power over the shares of  
22 CannaVest common stock owned by Roen Ventures, Mai Dun Limited, LLC and  
23 Mackay Ventures Inc. Defendant Mackay is a member of the Compensation  
24 Committee. Defendant Mackay is a resident of the State of Nevada.

25 14. Mackay is an attorney licensed since 1984 with emphasis in corporate  
26 finance, technology and entrepreneurial legal matters. According to CannaVest’s SEC  
27 filings, Mackay has extensive experience in establishing and developing new enterprises  
28

1 both from management and operational aspects, including the formation and growth of  
2 several of his own ventures.

3 15. **Defendant Larry Raskin** (“Raskin”) was appointed a Director of the  
4 Company on May 7, 2014. During the Relevant Period, Raskin was a member of the  
5 Compensation Committee. Defendant Raskin is a resident of North Carolina.

6 16. Mr. Raskin has been the Global Vice President of Leadership Development  
7 of ACN Inc., a telecommunications company, since 2012. Mr. Raskin joined ACN Inc.  
8 in 1994 and has held various positions in the company, including Vice President of Sales  
9 North America from 2001 to 2006 and Senior Vice President in 2012 prior to stepping  
10 into his current position. Prior to joining ACN Inc., Mr. Raskin was a National  
11 Marketing Director at National Safety Associates of Memphis, Tennessee from 1988 to  
12 1994. According to CannaVest’s SEC filings, Mr. Raskin’s extensive business  
13 background made him a valuable addition to the Board.

14 17. Defendants Mona, MacKay, and Raskin are collectively referred to  
15 hereinafter as the “Individual Defendants.”

16 18. According to CannaVest’s SEC filings, other than the Compensation  
17 Committee, it did not have any other committees of the Board, including an Audit  
18 Committee or a Nominating Committee, or any other committees performing similar  
19 functions. According to CannaVest’s SEC filings, the functions of those committees are  
20 being undertaken by the Board of Directors as a whole.

21 19. CannaVest, Roen Ventures, and Mona Co. Development (an entity owned  
22 by Defendant Mona) all share the same address, the Wilson Building, located at 2688 S.  
23 Rainbow Blvd., Las Vegas, NV.

24 20. **Non-Party Stuart Titus** (“Titus”) is the CEO and controlling shareholder of  
25 Medical Marijuana, Inc. The financing for the acquisition of CannaVest, including the  
26 interest acquired by Mackay, was provided by Titus who received 7.1% of CannaVest’s  
27 common shares. In the time period of January through March of 2014, Titus sold shares  
28 of CannaVest common stock he had acquired for a nickel at prices ranging from \$40.76

1 per share to \$166.17 per share, pocketing \$7 million. Titus served as a consultant and  
 2 advisor to CannaVest and was and is a holder of CannaVest common stock. For the year  
 3 ended 2013 CannaVest disclosed that “[t]he Company paid a total of \$30,000 to Mr.  
 4 Stuart Titus, a stockholder of the Company, for consulting services provided.”

5 21. ***Non-Party Michael Llamas*** (“Llamas”) was the former owner of Medical  
 6 Marijuana, Inc. Llamas resigned from Medical Marijuana, Inc. after he was indicted for  
 7 a \$10 million mortgage fraud. Nevertheless, upon information and belief, throughout the  
 8 Relevant Period Llamas continued to participate in the behind the scenes management of  
 9 both Medical Marijuana, Inc. and CannaVest. Mr. Llamas pled guilty to criminal  
 10 charges in the action captioned *USA v. Llamas*, 2:12-cr-00315 (E.D. Calif) but died  
 11 when he crashed his Lamborghini in a one car accident while awaiting sentencing.

#### 12 **CODE OF BUSINESS CONDUCT AND ETHICS**

13 22. As members of the CannaVest Board of Directors (the “Board”), the  
 14 Individual Defendants were held to the highest standards of honesty and integrity and  
 15 charged with overseeing the Company’s business practices and policies and of assuring  
 16 the integrity of its financial and business records.

17 23. The conduct of the Individual Defendants complained of herein involves a  
 18 knowing and culpable violation of their obligations as directors and officers of  
 19 CannaVest, the absence of good faith on their part, and a reckless disregard for their  
 20 duties to the Company and its investors that the Individual Defendants were aware posed  
 21 a risk of serious injury to the Company.

22 24. As noted above, the Company does not have an Audit Committee or a  
 23 Nominating Committee, or any other committee performing a similar function. The  
 24 functions of these committees are being undertaken by the Board as a whole.

25 25. On June 16, 2014, a Compensation Committee was formed by approval of  
 26 the Board. The following directors are members of the Compensation Committee:  
 27 Mackay and Raskin.

28 ///

## **DUTIES OF THE INDIVIDUAL DEFENDANTS**

26. By reason of their positions as officers and/or directors of the Company, and because of their ability to control the business and corporate affairs of CannaVest, the Individual Defendants owed CannaVest and its investors the fiduciary obligations of trust, loyalty, and good faith. The obligations required the Individual Defendants to use their utmost abilities to control and manage CannaVest in an honest and lawful manner. The Individual Defendants were and are required to act in furtherance of the best interests of CannaVest and its investors.

27. Each director of the Company owes to CannaVest and its investors the fiduciary duty to exercise loyalty, good faith, and diligence in the administration of the affairs of the Company and in the use and preservation of its property and assets. In addition, as officers and/or directors of a publicly held company, the Individual Defendants had a duty to promptly disseminate accurate and truthful information with regard to the Company's operations, finances, and financial condition, as well as present and future business prospects, so that the market price of the Company's stock would be based on truthful and accurate information.

28. To discharge their duties, the officers and directors of CannaVest were required to exercise reasonable and prudent supervision over the management, policies, practices, and internal controls governing the affairs of the Company. By virtue of such duties, the officers and directors of CannaVest were required to, among other things:

(a) ensure that the Company complied with its legal obligations and requirements, including acting only within the scope of its legal authority and disseminating truthful and accurate statements to the SEC and the investing public;

(b) conduct the affairs of the Company in an efficient, businesslike manner so as to make it possible to provide the highest quality performance of its business, to avoid wasting the Company's assets, and to maximize the value of the Company's stock;



1 (c) properly and accurately guide investors and analysts as to the true  
2 financial condition of the Company at any given time, including making accurate  
3 statements about the Company's business prospects, and ensuring that the  
4 Company maintained an adequate system of financial controls such that the  
5 Company's financial reporting would be true and accurate at all times;

6 (d) remain informed as to how CannaVest conducted its operations, and,  
7 upon receipt of notice or information of imprudent or unsound conditions or  
8 practices, make reasonable inquiries in connection therewith, take steps to correct  
9 such conditions or practices, and make such disclosures as necessary to comply  
10 with federal and state securities laws;

11 (e) ensure that the Company was operated in a diligent, honest, and  
12 prudent manner in compliance with all applicable federal, state and local laws,  
13 and rules and regulations; and

14 (f) ensure that all decisions were the product of independent business  
15 judgment and not the result of outside influences or entrenchment motives.

16 29. Each Individual Defendant, by virtue of his position as a director and/or  
17 officer, owed to the Company and to its shareholders the fiduciary duties of loyalty,  
18 good faith, and the exercise of due care and diligence in the management and  
19 administration of the affairs of the Company, as well as in the use and preservation of its  
20 property and assets. The conduct of the Individual Defendants complained of herein  
21 involves a knowing and culpable violation of their obligations as directors and officers  
22 of CannaVest, the absence of good faith on their part, and a reckless disregard for their  
23 duties to the Company and its shareholders that the Individual Defendants were aware,  
24 or should have been aware, posed a risk of serious injury to the Company.

25 30. The Individual Defendants breached their duties of loyalty and good faith  
26 by causing the Company to issue false and misleading statements concerning the  
27 financial condition of the Company. As a result, CannaVest has expended, and will  
28 continue to expend, significant sums of money related to investigations and lawsuits.



## **BACKGROUND**

31. On April 16, 2012, a news article reported that CannaBank sold an 80% interest in PhytoSphere Systems (“PhytoSphere”) to Medical Marijuana, Inc. (“MJNA”) for \$2.5 million (<http://www.altassets.net/private-equity-news/by-news-type/deal-news/cannabank-sells-phytosphere-systems-to-medical-marijuana.html>). This information was later confirmed in an article, “CannaBank Takes Hit Of \$2.5M Sale”, (<http://blogs.wsj.com/privateequity/2012/04/13/cannabank-takes-hit-of-2-5m-sale/>), which notes that Llamas, acting on behalf of MJNA as its President, purchased PhytoSphere for \$2.5 million from CannaBank.

32. On February 15, 2013, *Seeking Alpha* published an in-depth analysis of MJNA and the individuals at its helm. The analysis, “Chronically Criminal: Shielding The Public From Medical Marijuana” (<http://seekingalpha.com/article/1187411-chronically-criminal-shielding-the-public-from-medical-marijuana>) disclosed the following information regarding Llamas:

According to multiple Medical Marijuana filings, Mr. Michael Llamas (age 28) has served as President and Director of the Company and also indirectly controls 48% of the Company through his beneficial ownership of Hemp Deposit and Distribution Corp. Also, according to multiple Medical Marijuana filings, Mr. Michael Llamas’ sole prior business experience was founding North America Companies LLC, a real estate development and acquisitions firm specializing in distressed debt that completed “in excess of ten billion dollars in transactions.” Notably absent from Medical Marijuana filings is any discussion of Mr. Michael Llamas prolific prior indictments for fraud and financial shenanigans.

First, on 09/14/12, Mr. Michael Llamas was indicted by the United States for the Eastern District of California along with six other individuals for a case involving 19 counts of Mail Fraud and 31 counts of Wire Fraud related to a mortgage fraud scheme that caused more than \$10mm in losses to mortgage lenders and others. According to the indictment, Mr. Michael Llamas would approach builders of new homes and developers of condominiums to purchase investment homes in bulk at substantial price discounts ranging from 30 to 50 percent off under the terms of an “option contract.” Mr. Michael Llamas had no financial ability and no intention of purchasing the homes; rather, the homes were to be sold to an associate’s nominee members at full price. Mr. Michael

1 Llamas then arranged for an affiliated mortgage company,  
2 Nationwide Lending Group (NLG), to sell mortgage loans for  
3 the nominees with banks and other lenders at the full price of  
4 the homes without disclosing the large price discount.  
5 Lenders were thereby misled into advancing loans that far  
6 exceeded their lending guidelines. Also, the large option  
7 contract price discount was used to conceal the lack of  
8 required down payments by nominee buyers. Mr. Michael  
9 Llamas then split what remained of the price discount after  
10 subtraction of the fake down payments and certain fees with  
11 his cronies. In addition, Mr. Michael Llamas induced at least  
one home builder to record false liens in favor of one of their  
entities, Cobalt One LLC, for millions of dollars in bogus  
loans to cover up large payments from an associated firm to  
Cobalt One. If convicted, the Mr. Michael Llamas and the  
other defendants face a maximum statutory penalty for each  
violation of mail and wire fraud of 20 years in prison, a  
\$250,000 fine, and a three-year term of supervised release.  
As of 12/11/12, Mr. Michael Llamas has been released on bail  
pending trial.

12 On 09/17/12, just three days after being indicted by the  
13 Eastern District of California, Mr. Michael Llamas announced  
14 a "leave of absence effective immediately" from Medical  
15 Marijuana in order to "focus his attention on personal  
16 business matters." However, Mr. Michael Llamas signed off  
and certified the Medical Marijuana 09/30/12 Financial and  
Information Disclosure Statement as the Company's  
"President. This is one of many reasons why we believe the  
MJNA financials are fraudulent and most likely fabricated.

17 More interesting is the fact that on 09/30/12 and 12/02/12,  
18 Mr. Michael Llamas and Mr. Michael Corrigan, Esq.  
19 (MJNA's external counsel), respectively, certified that no  
20 members of the Company's management team had been  
21 subject to "a conviction in a criminal proceeding or named as  
22 a defendant in a pending criminal proceeding in the past five  
years." This appears to be a blatant fabrication in regards to  
Mr. Michael Llamas' prior court records. Moreover, this  
clearly violates the OTC Pink Basic Disclosure Guidelines  
Section 8B.1.

23 Next, on 12/05/07, Mr. Michael Llamas was sued by Mr. and  
24 Mrs. David Villar in the United States Bankruptcy Court for  
25 the Northern District of California for the Fraudulent Transfer  
26 of the couple's home in San Mateo California via a \$830k  
27 purchase option agreement (Case No. 05-35167 TCLS)  
(Appendix E). While the matter was eventually privately  
settled, it appears Mr. Michael Llamas was forced to pay  
restitution to the Villars.

1 Similarly, on 12/08/06, Mr. Michael Llamas (who was 22 at  
 2 the time), was arrested by the Tracy, California police  
 3 department on charges of forgery, grand theft, financial elder  
 4 abuse and conspiracy. Specifically, Mr. Michael Llamas was  
 5 accused of hoodwinking an elderly couple into believing they  
 6 had negotiated a reverse mortgage based on the \$485k equity  
 7 value of their home, but instead transferred the title of the  
 8 property to an entity Llamas controlled for de minimis  
 9 consideration.

10 Mr. Michael Llamas seems to have engaged in such extensive  
 11 mortgage fraud schemes against so many other unsuspecting  
 12 victims that an anonymous blog was created in 2009  
 13 dedicated to tracking his activities. More information is  
 14 available via: <http://mikellamas.blogspot.ca/>

15 In summary, based on Mr. Michael Llamas' exhaustive  
 16 history of mail, wire, and mortgage fraud, it is inconceivable  
 17 he could effectively serve as a President and Director of a  
 18 \$370mm publicly traded company. In this case, the reality of  
 19 the situation is even worse as Mr. Michael Llamas is not only  
 20 the President and Director of Medical Marijuana, Inc., but  
 21 also the largest and controlling shareholder. We have good  
 22 reason to believe that Mr. Michael Llamas is directly involved  
 23 in the liquidation of the free trading shares and will cover this  
 24 in more detail the next section.

25 \* \* \*

26 In addition to all this, we discovered today that PhytoSphere  
 27 (OTC: PHOT), a direct subsidiary of MJNA, paid \$100K in  
 28 cash to bail Michael Llamas from jail. This was never  
 disclosed as it should have been in the 12/31 "Audit" and is  
 yet another example of fraud perpetrated by MJNA.

33. As noted above, Llamas purportedly left MJNA on September 17, 2012,  
 after his indictment, but continued to unofficially run the company (and sign official  
 company documents). Thereafter, Llamas' hand-picked President and CEO of  
 CannaVest, Mona, followed in Llamas' footsteps.

34. Information on the formation of CannaVest and the involvement of  
 Defendant Mona, Defendant MacKay, Titus, Llamas can be found in an article published  
 in Forbes on April 14, 2014 entitled, "Inside the Pot Stock Bubble," which provided in  
 part:

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1 When Michael Mona Jr. went before the Nevada Gaming Control Board  
 2 seeking a license for his Mediterranean-style Sunrise Suites hotel and  
 3 casino in Las Vegas, it didn't go well. The board, reportedly wary of his  
 4 ties to shady telemarketers, including one who spent time in jail, told Mona  
 his application would be rejected. He in turn withdrew his application and  
 subsequently filed for personal bankruptcy when the casino could not open.

5 Mona might not be fit for the gambling business, but 16 years later he has  
 6 found a lucrative field that's not as choosy: the pot penny stock business.  
 7 Mona now runs CannaVest, the highest-flying stock in one of the year's  
 8 biggest market frenzies. With Colorado and Washington now permitting  
 9 the sale of marijuana for recreational use, and 20 states allowing it  
 10 medically, some 60 publicly traded outfits, many snarled in a tangled,  
 11 difficult-to-track web of interconnections, have popped up, claiming to be  
 12 pot and hemp stocks. Almost none, mind you, emerged via an IPO and all  
 the pesky disclosure and scrutiny that come with that path. Instead, real  
 estate, marketing and oil outfits have miraculously morphed into medical  
 marijuana and hemp companies, either through reverse mergers or simply  
 changing their declared line of business. And just about every single one is  
 thinly traded on the over-the-counter bulletin board, or Pink Sheets, where  
 promoters can push them with the enthusiasm of a campus dealer.

13 \*\*\*

14 The genesis of CannaVest—and the pot-stock frenzy overall—can be traced  
 15 to Bruce Perlowin. He knows the business well: He spent nine years in  
 16 prison for drug smuggling. With another ex-con, Don Steinberg (who also  
 17 went to jail for drug smuggling), Perlowin started the first publicly traded  
 18 medical marijuana company in 2009. He got the idea after a CNBC  
 19 documentary called Marijuana Inc. featured Perlowin's drug-smuggling  
 20 past. After it aired Perlowin was bombarded with calls and investment  
 21 proposals.

22 Perlowin and Steinberg already controlled a company that sold debit cards  
 23 and traded on the Pink Sheets, Club Vivanet. "Is there any sizzle in debit  
 24 cards?" Perlowin asks FORBES rhetorically. "There was so much sizzle in  
 25 medical marijuana." To remove any nuance he renamed his company  
 26 Medical Marijuana and was issued 40 million shares by the board.

27 What followed has been a textbook example of how to create buzz through  
 28 wheeling and dealing with related vehicles. When Perlowin oversaw it,  
 Medical Marijuana didn't actually do much, offering educational seminars  
 and consulting services. ***Then, in 2011, Medical Marijuana sold a huge  
 stake by issuing 260 million shares to a privately held investment vehicle,  
 Hemp Deposit & Distribution Corp., run by Michael Llamas, then 26.***

***Llamas became Medical Marijuana's president. Assets began moving  
 back and forth between the companies he ran, creating at least the  
 appearance of progress. For instance, in April 2012 Medical Marijuana  
 acquired 80% of a Hemp Deposit business called PhytoSphere, which  
 was billed by Llamas in a press release as a biotech outfit that produces  
 hemp-based products for pharmaceutical markets.***

1 Llamas also created a joint venture for Medical Marijuana with Dixie  
 2 Elixirs & Edibles, a Colorado-regulated manufacturer of medical-  
 3 marijuana-infused products. Vincent “Tripp” Keber, the man behind Dixie  
 4 Elixirs, hopped on Medical Marijuana’s board and soon appeared on 60  
 5 Minutes as the darling poster boy of the “green rush” going on in Colorado.  
 6 (Keber would be arrested for marijuana possession in Alabama in 2013.)  
 7 ***Frustrated casino developer Mona quickly joined the gang at Medical***  
 8 ***Marijuana, taking a stake in the company and sitting on the management***  
 9 ***committee overseeing the Dixie joint venture.***

10 Medical Marijuana’s stock price shot from 3 cents to 20 cents. But the  
 11 party stalled in September 2012 after a federal grand jury indicted Llamas  
 12 as part of an alleged \$10 million mortgage fraud. Llamas pleaded not guilty  
 13 but resigned from Medical Marijuana—just as the SEC started investigating  
 14 it.

15 Time to start fresh. ***Within a few weeks Mona left Medical Marijuana to***  
 16 ***become CEO of CannaVest, a new company that Mackay, the paper***  
 17 ***billionaire, created by using companies he owned to buy control of a***  
 18 ***penny stock company in the foreclosure business. New name, same***  
 19 ***game. Mackay’s share purchases were financed by a Florida***  
 20 ***physiotherapist named Stuart Titus, who—surprise!—had helped Perlowin***  
 21 ***raise capital for Medical Marijuana. Titus also backs a hemp multilevel***  
 22 ***marketing company.***

23 ***Titus put \$375,000 behind Mackay’s CannaVest play and also got***  
 24 ***millions of CannaVest’s shares. CannaVest then agreed to buy the assets***  
 25 ***of PhytoSphere from Medical Marijuana and Llamas’ Hemp Deposit for***  
 26 ***\$35 million in cash or stock. Follow all this? Few people can—a fact that***  
 27 ***Mona himself apparently alluded to. “Your reference to this being a***  
 28 ***‘shell game’ is offensive,” a Dixie Elixirs executive wrote to Mona last***  
 29 ***year in an e-mail obtained by FORBES. “I request you not say it again.”***

30 Shell game. Three-card monte. Or just a flurry of dealmaking between  
 31 related companies that happen to be publicly traded. Whatever you call it,  
 32 CannaVest’s shares were poised to take off—and the architects stood ready  
 33 for a great windfall.

34 \*\*\*

35 The one thing that isn’t murky here: the fortunes being made by  
 36 those at CannaVest.

37 Of course, there’s Mackay. Even with the stock at \$68, he’s recently  
 38 been able to convert loans into 10 million shares—at 60 cents each.  
 39 That 100-fold arbitrage is the large driver of his “billionaire” status.  
 40 His pals Mona, the CannaVest CEO, and Llamas, the kid who ran its  
 41 forerunner before he was indicted, helped him pull it off.

42 Here’s how: Last year an entity called Roen Ventures agreed to lend \$6  
 43 million to CannaVest. According to a recent lawsuit against Mona in



1 Nevada, filed as part of a \$17.8 million judgment related to a land  
 2 transaction, Mona and Llamas had formed Roen. According to the lawsuit,  
 3 Mona had personally put up half that loan—and then sold his interest in  
 4 Roen to Mackay for \$500,000. Mackay acknowledges buying out Llamas.  
 And then he converted Roen Ventures’ loans to 10 million shares of  
 CannaVest stock at 60 cents a share. Voil?! More than \$1 billion at the  
 recent share price, when you include all the shares he owns.

5 ***Another winner: Titus, the physiotherapist down in Florida, who had***  
 6 ***bankrolled Mackay at CannaVest—and worked to finance Medical***  
 7 ***Marijuana before that. This year he’s been turning his paper profits into***  
 8 ***actual cash, taking CannaVest shares he had bought for a nickel each***  
 9 ***and selling them for as much as \$150 a share, and pocketing \$7 million,***  
***an SEC filing shows. “I have to say that, you know, this has turned out***  
***quite nicely,” Titus tells FORBES in an interview.*** Meantime, Mona’s son  
 owns 1.25 million shares.

10 (Emphasis added).

11 35. A more detailed history of CannaVest and its connection with Medical  
 12 Marijuana, Inc. and the other players involved in Defendants’ breach of fiduciary duties  
 13 is told in an expose authored by Project CBD<sup>1</sup> and published by the Daily Chronic on  
 14 October 15, 2014. Thomas H. Clarke, “Hemp Oil Hustlers: Project CBD Investigates  
 15 Makers of RSHO,” The Daily Chronic (Oct. 15, 2014). A large part of the expose  
 16 focuses on the potentially contaminated and unsafe products these companies were/are  
 17 manufacturing and/or peddling, the substance of which will not be recounted here. The  
 18 well-sourced expose provides in part:

19 In 2011, Michael Llamas purchased majority ownership in Medical  
 20 Marijuana Inc. through another firm he controlled, the Hemp Deposit and  
 21 Distribution Corporation. Stock market analysts would soon raise questions  
 22 about Medical Marijuana Inc.’s new, young owner, who had a shoddy  
 financial history involving complex mortgage fraud, according to federal  
 investigators. [*Id.* at 9]

23 \*\*\*

24 ***Soon after Llamas was indicted [in September 2012] for mortgage fraud,***  
 25 ***Medical Marijuana Inc. announced that he had resigned as interim***  
 26 ***president and CEO. But he continued to be a major shareholder in the***  
***company. With Llamas calling the shots from behind the scenes, Medical***

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27 <sup>1</sup> According to its website, Project CBD is a California-based nonprofit dedicated to  
 28 promoting and publicizing research into the medical uses of cannabidiol (CBD) and  
 other components of the cannabis plant. It purports to provide educational services for  
 physicians, patients, industry professionals, and the general public.

1 ***Marijuana Inc. would morph into a high-profile umbrella corporation***  
 2 ***with significant holdings in at least seven different subsidiaries, each at***  
 3 ***varying levels of capitalization. [Id.]***

4 \*\*\*

5 An umbrella corporation like Medical Marijuana Inc., with a complicated  
 6 network of portfolio companies, can impress outsiders the same way a frill-  
 7 necked lizard wards off predators: by making itself seem bigger (and thus  
 8 more credible) than it actually is. MJNA stitched together a network of  
 subsidiaries and affiliates, which grew to include HempMeds PX, Red Dice  
 Holdings, Dixie Botanicals, PhytoSphere Systems, Kannaway, CanChew  
 BioTechnologies, Canpia Holdings, Ace Hydro, KannaLife Sciences, and  
 Wellness Managed Services. [Id. at 10]

9 Medical Marijuana Inc. often cited these entities as sources of revenue, but  
 10 some of them appear to be illusory. For example, MJNA asserted in a press  
 11 release that its collection of health and wellness facilities operated by  
 12 Wellness Managed Services experienced “an accumulative 3941% revenue  
 13 increase” throughout 2011, but it’s hard to figure out exactly how that  
 14 happened. The website for Wellness Managed Services contains distorted  
 stock photos and typos on the “About” page and appears not to have been  
 updated in two years. Phone calls to Wellness Managed Services by Project  
 CBD were routed back to Medical Marijuana Inc.’s line, which never  
 returned our messages.‡ [Id.]

15 \*\*\*

16 The complex enmeshing of “shell companies”— companies that act as  
 17 vehicles for business transactions without actually having any assets or  
 18 operations themselves—is another hallmark of pump and dump schemes,  
 says Seattle-based Canna Law attorney Robert McVay. [Id. at 11]

19 “Novice investors will see the complicated structures and holding  
 20 companies that have a bunch of shell companies attached to them, and  
 [then] people put trust in these companies because they seem large and  
 professional,” McVay told Project CBD. [Id.]

21 Corporate start-ups can also bolster their legitimacy—or shroud their stock  
 22 market schemes—by entering into strategic relationships with affiliate  
 23 firms whose public image is mutually enhanced by the partnership.  
 Companies reference each other in their press releases, McVay explained,  
 24 “and they’re able to pump each other up in terms of how they’re doing.  
 You see it a lot when a company is involved in fraudulent action.” [Id.]

### 25 **CannaVest and PhytoSphere**

26 Medical Marijuana Inc. went into damage control mode in September 2012  
 27 when its interim CEO Michael Llamas was indicted for mortgage fraud. A  
 MJNA press release quickly announced that he was stepping “down from  
 28 his position in order to focus his attention on personal business matters that  
 are entirely unrelated to MJNA.” [Id. at 12]



1 *A few months later, Michael Mona Jr. left his post as Management*  
 2 *Committee Chairman of Red Dice Holdings, a MJNA subsidiary, to*  
 3 *launch a new company called CannaVest. A corporate brochure*  
 4 *published by CannaVest states that “Mr. Mona worked as a consultant to*  
*Medical Marijuana Inc. until early 2013 when he was named President*  
*and CEO of CannaVest Corp.” [Id.]*

5 *From January 2013 onward, CannaVest and Medical Marijuana Inc. not*  
 6 *only pumped each other up in their press releases, they also formed a*  
 7 *production and distribution line for CBD-infused “hemp oil” imports*  
 8 *that bound the two together like the intestinal tract of conjoined twins.*  
*And they regularly exchanged shares with each other, lending an*  
 9 *appearance of growth and productivity to outsiders. [Id.]*

10 The corporate headquarters of CannaVest is located on Rainbow Avenue in  
 11 Las Vegas, Nevada, in the same Sin City suite that was also home base for  
 12 a company called Roen Ventures. Co-founded by Mona and Llamas, Roen  
 13 Ventures was hit with a \$17.77 million legal judgment in 2012 for  
 14 facilitating fraudulent land transactions in California. [Id.]<sup>2</sup>

15 Before January 2013, CannaVest was known as Foreclosure Solutions,  
 16 where Mona served as President and CEO. In order for Foreclosure to  
 17 transition into CannaVest, some of Mona’s associates in other industries  
 18 began buying CannaVest shares. Mona also funneled a \$3 million loan  
 19 through Roen Ventures to CannaVest, a maneuver that rankled Far West  
 20 Industries, the creditor that had won the \$17.77 million settlement against  
 21 Roen Ventures. Far West Industries said that loan “was intended to

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22 <sup>2</sup> According to CannaVest’s Form 10-K for the year ended December 31, 2013 filed  
 23 with the SEC on March 28, 2014:

24 “On March 8, 2008, Far West Industries (“Far West”) sued Michael J. Mona, Jr.,  
 25 President and Chief Executive Officer of the Company, and others for damages  
 26 resulting from fraud arising out of a land transaction in California. On February  
 27 23, 2012, a judgment was entered in the California Action in favor of Far West  
 28 against Mr. Mona and others in the amount of \$17,777,562.18. On October 18,  
 2012, the judgment in the California action was domesticated in Nevada and  
 enforcement proceedings commenced including, but not limited to an  
 examination of Mr. Mona as a judgment debtor, and garnishments of various  
 accounts belonging to Mr. Mona. During the period, Mr. Mona loaned \$3,000,000  
 to Roen Ventures, LLC, which was subsequently loaned to the Company. The suit  
 alleges that the transaction was intended to prejudice creditors like Far West by  
 concealing and wasting assets that would otherwise be available to satisfy the  
 judgment that Far West has against Mr. Mona. Pursuant to a Second Amended  
 Complaint filed by Far West Industries on February 20, 2014, the Company was  
 added as a defendant to the suit. On March 17, 2014, the Company was served  
 with the Second Amended Complaint. In summary, Far West alleges that the  
 Company is in possession of funds as a result of an allegedly fraudulent transfer  
 between Michael Mona, Jr., Roen Ventures, LLC, and the Company. Management  
 plans to defend the claims to the fullest extent of the law. No determination  
 has been made as the merit of the case or potential outcome.”  
 Thereafter the Company was dismissed from the action.

1 prejudice creditors like Far West by concealing and wasting assets that  
2 would otherwise be available to satisfy the [\$17.7 million] judgment.” [Id.]

3 But no matter. It was a new year, and Mona and his partner Llamas, the  
4 disgraced majority shareholder of Medical Marijuana Inc., had positioned  
5 themselves at the top of a nascent industry where investors were clamoring  
6 to get a piece of the action. Voters in Colorado and Washington had  
7 recently cast their ballots for legal recreational cannabis and the value of  
8 any stock even tenuously connected to ganja went soaring.

9 ***In a glowing press release dated March 1, 2013, Medical Marijuana Inc.***  
10 ***announced that it was selling its subsidiary PhytoSphere (which***  
11 ***processed the hemp paste from abroad) to CannaVest for \$35 million in***  
12 ***“CANV” shares. It sounded impressive on paper, but CannaVest scarcely***  
13 ***had an operation to justify any meaningful valuation of its shares. SEC***  
14 ***filings show that CannaVest only had a total of \$431 in assets at the time***  
15 ***the transaction was announced.*** [Id. at 12-13]

16 “The terms of the transaction were the result of arms-length negotiations  
17 between the parties, unaffected by any prior relationships,” explained  
18 Michael J. Mona, III, VP of Operations for CannaVest (the CEO’s son).  
19 [Id.]

20 Throughout 2013, Medical Marijuana Inc. reported that it was handing off  
21 incremental parts of its portfolio company PhytoSphere to CannaVest for  
22 piecemeal infusions of \$35 million in CannaVest shares. Each new  
23 pronouncement gave a momentary jolt to the price of Medical Marijuana  
24 Inc. shares, their value inflated by overblown press releases and a cannabis-  
25 crazy zeitgeist. [Id.]

26 “Medical Marijuana Inc. has never sold a single share of CannaVest, so  
27 it’s done no good for the company,” said Alan Brochstein, founder of 420  
28 Investor, in a phone conversation with Project CBD. Brochstein is cautious  
about labeling the MJNA-CANV collaboration a “fraud,” but he  
acknowledges that the whole thing is suspect. [Id.]

29 ***“They put an arbitrary price of \$35 million, and said it was all going to***  
30 ***be paid in [CannaVest] stock and not cash. But [CannaVest] was a shell***  
31 ***company that had no operation, so the whole thing looks fraudulent,” he***  
32 ***said. “How did they come to \$35 million?”*** [Id.]

33 Brochstein isn’t the only investment analyst who has challenged the  
34 financials of weed start-ups like Medical Marijuana Inc. “Most of these  
35 over-the-counter weed penny stocks are just vehicles for their insiders to  
36 sell shares to retail investors caught up in the hype of the legalized  
37 marijuana revolution,” wrote Cody Willard in the Wall Street Journal  
38 MarketWatch blog. [Id.]

39 ***Insiders at CannaVest and Medical Marijuana Inc. held much of each***  
40 ***other’s shares, and some would later sell them to credulous traders at a***  
41 ***significant markup.*** [Id.]

1 *For example, Stuart Titus, the owner of Kannaway's parent company,*  
 2 *General Hemp, and a key financier for Medical Marijuana Inc., sold*  
 3 *over \$4 million worth of CANV shares in early 2014 as their value*  
 4 *reached an astronomical \$166.17 each. The rise and fall of CANV's*  
 5 *price trajectory looks like the Burj Khalifa skyscraper shooting up from*  
 6 *the streets of Dubai. [Id.]*

7 *One reason why CANV shares spiked so high is that Medical Marijuana*  
 8 *Inc. sold PhytoSphere "assets" to CannaVest for \$35 million (almost*  
 9 *exclusively) in CANV shares, a transaction that bolstered both*  
 10 *companies' profiles at little actual cost. CannaVest also issued 900,000 of*  
 11 *its shares to PhytoSphere as part of that deal. The whole transaction was*  
 12 *somewhat like the episode of Beavis and Butthead in which the two*  
 13 *teenagers sell all their chocolate bars to each other for the same pair of*  
 14 *dollars. [Id. at 13-14]*

15 *The mega-valuation of CANV shares may have temporarily boosted*  
 16 *MJNA's valuation because of "a weird feedback loop" created by*  
 17 *Medical Marijuana Inc., writes a representative of Rolling O Research*  
 18 *on the investor website Seeking Alpha. "[Medical Marijuana Inc.]*  
 19 *mentions . . . CannaVest in their PR. Some readers then think that*  
 20 *CannaVest sold much more product than it likely did, which increases*  
 21 *the price of CANV shares. That increases the value of MJNA's*  
 22 *CannaVest holdings on the balance sheet, providing support to a higher*  
 23 *[MJNA] stock price." [Id. at 14]*

24 *MJNA stock peaked at about 50 cents, but since then its price has*  
 25 *hovered below 20 cents per share. By October 2014, CANV shares had*  
 26 *dropped precipitously to \$3.00, a change facilitated by a barrage of bad*  
 27 *press. An article in Forbes, "Inside the Pot Stock Bubble" (March 26,*  
 28 *2014), disclosed that CEO Mona was attempting to sell 10 million CANV*  
 29 *shares for \$1.50 each. These restricted shares couldn't be traded publicly*  
 30 *for another six months. When queried about this deal, Michael Mona III*  
 31 *of CannaVest told Project CBD that this offering had been terminated on*  
 32 *April 23. [Id. at 14]*

33 *On May 9, purchasers of CANV stock filed a class action lawsuit against*  
 34 *CannaVest. The lawsuit followed a disclosure by CannaVest to the SEC*  
 35 *that it had "misreported" its financial position throughout 2013. [Id.]*

36 \*\*\*

37 *In July 2014, a Project CBD delegation visited the laboratory facilities of*  
 38 *CannaVest in San Diego, where the imported hemp paste is refined into oil.*  
 39 *We were greeted by lab director Joshua Hartsel and CannaVest executives*  
 40 *Chris Boucher and Michael Mona III. [Id. at 27]*

41 *Hartsel, the lead scientist at CannaVest, specializes in medicinal organic*  
 42 *chemistry. He earned a PhD at Virginia Tech and completed a postdoctoral*  
 43 *fellowship at the University of California. He subsequently founded Delta-*  
 44 *9 Technologies, an analytical testing lab that serviced California's medical*  
 45 *marijuana industry. Hartsel's clients included CannaVest, which sent the*  
 46 *first of several batches of its CBD-infused extract to Delta-9 Technologies*  
 47 *for evaluation in March 2013. [Id.]*

1 A half year later, Hartsel was hired by CannaVest to establish an in-house  
 2 laboratory and oversee research and development for the company. ***Hartsel***  
 3 ***got the job after being interviewed by CannaVest CEO Michael Mona Jr.***  
***and Michael Llamas, the former CEO of Medical Marijuana Inc. [Id.]***

4 Prior to September 2013, CannaVest did not have a science department,  
 5 according to Hartsel. But CannaVest, through its subsidiary PhytoSphere,  
 6 had been providing CBD-infused hemp oil to Medical Marijuana Inc. for  
 7 several months before Hartsel came on board. [Id.]

8 ***The exact role of PhytoSphere in the hemp oil pipeline remains***  
 9 ***somewhat of an enigma. Originally a wholly owned subsidiary of***  
 10 ***Medical Marijuana Inc., PhytoSphere was supposedly sold to CannaVest***  
 11 ***in exchange for \$35 million in CANV shares. But CannaVest insiders***  
 12 ***told Project CBD that Medical Marijuana Inc. never fully dissolved its***  
 13 ***portion of PhytoSphere. “At one point, we had a PhytoSphere and they***  
 14 ***had a PhytoSphere,” said Michael Mona. [Id.]***

15 To allay confusion as to the status of Phytosphere—and perhaps also to  
 16 distance itself from any problems that may have arisen prior to forming an  
 17 in-house science team—CannaVest changed the name of Phytosphere to  
 18 CannaVest Laboratories, LLC. [Id.]

19 \*\*\*

20 ***When Project CBD visited CannaVest, we heard complaints about the***  
 21 ***Kannaway campaign and Michael Llamas’s mercurial, behind-the-***  
 22 ***scenes management style. “We’re separate, but everyone thinks we’re***  
 23 ***one,” CannaVest CEO Michael Mona Jr. insisted. “HempMeds is not***  
 24 ***CannaVest, and CannaVest is not HempMeds.” [Id. at 29]***

25 But even as it tried to distance itself from Medical Marijuana Inc.,  
 26 CannaVest was burdened by its own corporate history. In June 2014,  
 27 CannaVest, a MJNA offshoot, announced that it had disposed of several  
 28 million shares of KannaLife Sciences, a MJNA subsidiary, in exchange for  
 a half million shares of CANV, which had previously been issued to  
 Phytosphere. Shades of Beavis and Butthead again. [Id.]

(Emphasis added).

36. The above events were perpetrated by Defendants, particularly Mona, Jr.  
 and MacKay, and upon information and belief, these events also included non-parties  
 Llamas and Titus.

### **FACTS**

37. According to the Company's SEC filings, CannaVest is engaged in the  
 business of developing, producing, marketing and selling end consumer products to the  
 nutraceutical industry containing hemp plant extract, cannabidoil (CBD) and reselling to



1 third parties raw product acquired by the Company pursuant to its supply relationships in  
2 Europe. According to the Company, CannaVest seeks to take advantage of an emerging  
3 worldwide trend to re-energize the production of industrial hemp and to foster its many  
4 uses for consumers. CBD is derived from hemp stalk and seed. According to the  
5 Company, this legal substance can be used with foods and nutritional supplements for  
6 consumer health and wellness benefits as well as in the pharmaceutical industry.

7 38. CannaVest (formerly Foreclosure Solutions, Inc.) was incorporated on  
8 December 9, 2010, in the state of Texas, to provide information on pre-foreclosure and  
9 foreclosed residential properties to homebuyers and real estate professionals on its  
10 website. The Company was unable to secure financing for this business plan and  
11 consequently experienced a change of control and a change of focus to its present  
12 business.

13 39. According to the Company's SEC disclosures (see Form 10-K for the year  
14 ended 2013): On November 16, 2012, the Buyers (Mai Dun Limited, LLC, and Mercia  
15 Holdings, LLC (MacKay-owned entities), General Hemp, LLC and Bamburgh Holdings,  
16 LLC) (Titus-owned entities) acquired a total of 5,000,000 shares of common stock of the  
17 Company (formerly known as Foreclosure Solutions, Inc.) from H.J. Cole, the  
18 Company's former sole director and former sole officer ("Cole"). Concurrently, the  
19 Buyers acquired a total of 1,979,900 shares of common stock of the Company from  
20 other shareholders of the Company in a series of private transactions (the "Non-Affiliate  
21 Purchase Transactions"). The Buyers purchased all of the 6,979,900 shares in the Cole  
22 Purchase Transaction and the Non-Affiliate Purchase Transactions for an aggregate  
23 purchase price of \$375,000. Upon consummation of the transactions described above,  
24 the Buyers collectively acquired 99.7% of the total issued and outstanding shares of  
25 common stock of the Company. The funds used for these share purchases were cash  
26 loaned to each of the Buyers from Titus pursuant to the terms of individual promissory  
27 notes entered into by Titus and the sole member of each of the Buyers. Defendant  
28 Mackay, a member of CannaVest's Board, is the sole member of each of Mai Dun

1 Limited, LLC and Mercia Holdings, LLC. Titus was the sole member of General Hemp  
 2 LLC and was also deemed to have shared voting and investment power over the shares  
 3 of CannaVest common stock owned by Bamburgh Holdings LLC.

4 40. On January 29, 2013, following the change of control, the Company  
 5 amended its certificate of formation to change its name to CannaVest.

6 41. Also on January 29, 2013, CannaVest closed the asset acquisition  
 7 transaction with PhytoSphere, at which time the Company took delivery of the acquired  
 8 assets and made its first installment payment to PhtyoSphere by issuing 900,000 shares  
 9 of common stock. CannaVest reported the value of the transaction at \$35 million.

10 42. On February 12, 2013, CannaVest announced its acquisition of the  
 11 PhytoSphere assets:

12 **A. Acquisition of Certain Assets of PhytoSphere Systems, LLC**

13 On December 31, 2012, we entered into an Agreement for Purchase and  
 14 Sale of Assets (the "Purchase Agreement") with PhytoSPHERE Systems,  
 15 LLC, a Delaware limited liability company ("PhytoSPHERE"), whereby  
 16 the Company acquired certain assets of PhytoSPHERE in exchange for an  
 17 aggregate payment of \$35,000,000, payable in five (5) installments of  
 18 either cash or common stock of the Company, in the sole discretion of the  
 19 Company. Pursuant to the Agreement, the Company acquired from  
 20 PhytoSPHERE certain tangible assets, including equipment and inventory,  
 21 all web domains of PhytoSPHERE, existing bank accounts with a total  
 22 balance of \$50,774.55, phone numbers, e-mail addresses and postal  
 addresses, vendor lists, permits, licenses and other approvals, and all  
 existing and pending contracts. Notably, pursuant to the Purchase  
 Agreement we acquired from PhytoSPHERE all of its rights, and assumed  
 all of its liabilities, under contracts with hemp production and processing  
 facilities in three foreign countries in Europe, which allows us to secure  
 raw product for the development and production of products. We also  
 secured the exclusive license to the name "PhytoSPHERE" and  
 "PhytoSPHERE Systems" for use in the development and  
 commercialization of hemp-based products.

23 The Purchase Agreement requires payment as follows: (a) \$4,500,000 on  
 24 or before January 31, 2013; (b) \$6,000,000 on or before March 30, 2013;  
 25 (c) \$8,000,000 on or before June 30, 2013; (d) \$10,000,000 on or before  
 26 September 30, 2013; and \$6,500,000 on or before December 31, 2013. For  
 27 any installments paid by the issuance of stock, the number of shares of  
 28 stock issuable by the Company is determined by reference [to] the closing  
 price of our common stock on the day prior to issuance. The price is  
 subject to a "collar", whereby in no event will the shares issuable pursuant  
 to the Purchase Agreement be priced at more than \$6.00 per share, and in  
 no event will the shares be priced at less than \$4.50 per share.

1       PhytoSPHERE is a Delaware limited liability company owned by Medical  
2       Marijuana, Inc. (MJNA.PK), an Oregon corporation, and Hemp Deposit  
3       and Distribution Corporation, a Delaware corporation. Our Chief Executive  
4       Officer and sole member of our Board of Directors, Michael Mona, Jr.,  
5       owns and/or controls approximately 37,337,000 shares of common stock of  
6       Medical Marijuana, Inc., which represents approximately 4% of the issued  
7       and outstanding shares of the capital stock of Medical Marijuana, Inc. as of  
8       February 11, 2013. Mr. Mona does not hold any management position with  
9       Medical Marijuana, Inc. or serve on its board of directors, nor has he held  
10      any such position previously. Mr. Mona neither owns shares in, nor serves  
11      Hemp Deposit and Distribution Corporation in any capacity, nor has he  
12      done so previously.

13       43. Just a few months earlier, Medical Marijuana, Inc. had acquired  
14      PhytoSphere for only a fraction of the price paid to Medical Marijuana, Inc. by  
15      CannaVest. In particular, an April 16, 2012 news article published by Altassets reported  
16      that CannaBank sold an 80% interest in PhytoSphere to MJNA for \$2.5 million. See  
17      [http://www.altassets.net/private-equity-news/by-news-type/deal-news/cannabank-sell-  
18      phytosphere-systems-to-medical-marijuana.html](http://www.altassets.net/private-equity-news/by-news-type/deal-news/cannabank-sell-phytosphere-systems-to-medical-marijuana.html). This information was also reported in  
19      an article, “CannaBank Takes Hit Of \$2.5M Sale,” published in the Wall Street Journal  
20      on April 13, 2012. In short, MJNA acquired an interest in PhytoSphere in April 2012 for  
21      \$2.5 million, and eight months later agreed to sell this interest to CannaVest (which  
22      came into existence November 16, 2012) for purportedly \$35 million.

23       44. Throughout the Relevant Period, MJNA and its various subsidiaries issued  
24      a multitude of press releases touting their success and referencing their relationship with  
25      CannaVest. Specifically, MJNA touted the plans and accomplishments of CannaVest  
26      and PhytoSphere—an entity that both CannaVest and Medical Marijuana, Inc. at one  
27      time or another claimed as their own entity.

28       45. On March 14, 2013, CannaVest increased the size of its Board of Directors  
from one (1) person (Mona) to four (4) persons, and appointed Defendant Mackay, and  
non-parties Sobieski and Wilson to fill the newly created seats and serve as directors of  
the Company, effective March 15, 2013.

46. Then, on April 4, 2013, Medical Marijuana, Inc. issued a press release  
discussing the PhytoSphere transaction and prospects for PhytoSphere:



1 MEDICAL MARIJUANA INC ("MJNA") - Significant Revenue and Net  
2 Income Growth

3 PhytoSphere Systems LLC - is the world/s leading cannabinoid based bio-  
4 technology Company. The company recently entered into an agreement  
5 with CannaVest Corp (OTC:CANV) for the rights to use its brand name  
6 PhytoSphere Systems, along with the outsourcing to CannaVest its hemp  
7 facility cultivation, management and processing. The company is still  
8 owned eighty (80%) percent by Medical Marijuana Inc., and as part of the  
9 transaction MJNA became a significant shareholder in CANV.

10 PhytoSphere Systems will still play a significant role in the company's  
11 overall game plan, with the licensing and outsourcing to CannaVest, the  
12 company is able to save nearly ten (10M) million dollars of additional  
13 infrastructure and development costs in the first two quarts of this year  
14 alone. In addition to saving a significant amount of capital, the company  
15 was able to streamline its corporate operations by not having its focus  
16 diverted by a multi-country multi-continent highly management intensive  
17 business, while still allowing MJNA and its subsidiaries a constant supply  
18 of these high quality ingredients, just above manufacturing and  
19 infrastructure costs and well below wholesale and retail pricing.

20 As the demand for CBD-based products continues to grow, PhytoSphere is  
21 constantly expending their operational capacity to meet this demand.  
22 Internally, the company is expected to deliver several hundred kilograms of  
23 raw Hemp CBD oil this quarter to Medical Marijuana Inc. and the family  
24 of companies.

25 PhytoSphere will offer its raw materials to the open market starting May  
26 1st 2013. With this raw materials sales launch, the company will launch its  
27 updated corporate information and sales sites, where customers can  
28 purchase a variety of products with several financing options for large scale  
wholesale accounts.

47. As reported by CannaVest in its SEC filings, as of April 12, 2013,  
CannaVest had five employees; as of March 28, 2014, CannaVest had eight full-time  
employees and no part-time employees.

48. According to CannaVest's SEC filings, the Company purchased the assets  
of PhytoSphere as the basis for implementing the Company's new business model,  
which was and is to manufacture, market and sell products containing hemp oil.  
According to announcements made by the Company at least as early as February 13,  
2013, CannaVest anticipated launching its first product to large commercial buyers as  
early as March 2013, and having products on the market available to consumers shortly  
thereafter; and, CannaVest's "line of products [was] expected to grow throughout the

1 year – by year end 2013 we anticipate a full line of CBD and hemp-related consumer products.”

3 49. In sum, MJNA acquired an interest in PhytoSphere during April 2012 for  
4 \$2.5 million, and eight months later agreed to sell this interest to CannaVest (which  
5 came into existence November 16, 2012) for \$35 million.

6 50. According to an April 14, 2014 *Forbes* article, Mona referred to this as a  
7 “shell game.” The article further noted:

8 Shell game. Three-card monte. Or just a flurry of deal  
9 making between related companies that happen to be publicly  
10 traded. Whatever you call it, CannaVest’s shares were poised  
to take off—and the architects stood ready for a great windfall.

11 51. CannaVest at that time was a small company with little to no money or  
12 business operations and was run by Mona (an MJNA insider). It had the option of  
13 paying for all or portions of the \$35 million in CannaVest stock, thus was a virtual  
14 certainty that CannaVest would pay MJNA with CannaVest stock. Also, because  
15 CannaVest had only 7,900,000 common shares outstanding, the initial \$4.5 million  
16 payment in CannaVest shares with an assigned value of \$5.00 per share represented a  
17 return of 11.4% of CannaVest’s outstanding shares to MJNA. If MJNA were to be paid  
18 the entire \$35 million with stock at a share value of \$5 per share, it would have  
19 7,000,000 shares which would represent an 88.6% ownership interest in the company  
20 thus making CannaVest an MJNA subsidiary. And in fact, MJNA would have a  
21 controlling stock ownership interest in CannaVest long before CannaVest made its last  
22 payment.

23 52. In substance, MJNA (Llamas’ alter ego) orchestrated the appearance of a  
24 newly created publicly held company with \$35 million of assets when in fact this  
25 number was grossly inflated, and when the new publicly held company was pre-arranged  
26 to be owned and controlled by MJNA (Llamas). The recordation of the vastly overstated  
27 asset infusion also immediately increased the perceived worth of CannaVest’s common  
28 stock to the investment community, thereby grossly inflating CannaVest’s trading price.

On April 30, 2013, Medical Marijuana, Inc. issued another press release commenting on the PhytoSphere transaction:

To The Shareholders of Medical Marijuana Inc.:

From: Michelle Sides, Chairman, Chief Operating Officer and Shareholder

**-- FINANCIALS AND PHYTOSPHERE SYSTEMS TRANSACTION**

There have been some questions with regards to the CannaVEST transaction with Phytosphere Systems. The current status of this transaction is as follows: MJNA currently owns and has owned 80% of Phytosphere Systems, which is a global phytocannabinoid biotechnology company specializing in the production of hemp based compounds, oils and extracts. These include Cannabidiol (CBD), Cannabidiol-Acid (CBD-A), Cannabigerol (CBG) and Cannabigerol-Acid (CBG-A) as well as other beneficial cannabinoids, terpenoids and flavinoids. The Phytosphere Systems is also developing a pipeline of Terpenoids and flavinoids. As part of the company's refocusing of management, time and capital, we decided to streamline our business focus.

***Prior to Phytosphere, these pipelines of products did not exist in any large quantity or steady supply. Since then, we have been able to sign an exclusive license with CannaVest Corp, which would allow MJNA the benefit of its steady pipeline, while no longer having to deal with the day to day operating challenges.*** The company operates in five countries and three continents. Along with the licensing agreement, the Company agreed to sell its excess inventory as well as the contracts, subcontractors and production capabilities to CannaVest as part of the transaction. This again allows the Company to no longer have to deal with the day to day operations, legal, export, import, licensing, continued development, considerable financial investments, staffing and costs associated with the logistics of the business while still owning 80% of Phytosphere. CannaVest provides the raw ingredients to the Company for the same price MJNA received prior to the execution of the license agreement. Once Phytospheres' production increases and creates a decrease in the cost of production, a drastic price reduction will be made available to MJNA and its subsidiaries.

This obviously will lead to significantly increased profitability for MJNA and its shareholders. The payment structure is as follows:

CannaVest is paying MJNA \$35 million through the end of 2013. The payments can be made in stock or cash, or a combination of both (please look at legal disclosure for exact terms). If CannaVest pays in stock, MJNA becomes the majority shareholder in CannaVest and gets to realize a cost savings in production, while also the increase in value it may get from the continued growth of the brand. If CannaVest pays in cash, MJNA realizes a substantial increase in its cash position. To date MJNA received in the 4th quarter a \$4.5m dollar payment in CannaVest stock payment towards its licensing obligation, and as disclosed in subsequent filings, the

1 Company has also received \$4.5m and a \$1.5m payment in stock from  
 2 CannaVest, for a total stock payment of \$10.5m towards licensing and  
 3 partial inventory. The first payment of \$4.5mil was 100% credited as  
 4 licensing, the second and third installments are credited as an inventory  
 5 purchase. The details of the transaction will be addressed in our first  
 6 quarter filings, on or before May 15, 2013. The balance of the \$24.5m  
 7 payments  $\frac{1}{4}$  consideration will be broken up between inventory purchases  
 8 first, then against the production contracts and the agricultural production  
 9 team that was acquired by CannaVest as part of the transaction.

10 53. On May 14, 2013—one week before the Company filed with the SEC its  
 11 financial statements for the first quarter 2013—CannaVest announced in a Form 8-K  
 12 filed with the SEC that it had terminated its independent auditor Turner Stone &  
 13 Company, LLP (“Turner Stone”) and had replaced it with Anton Chia, LLP. Submitted  
 14 in connection with the May 14, 2013 Form 8-K filing was a letter from Turner & Stone  
 15 to Defendant Mona, Jr. and the Company. The letter *identified a significant material*  
 16 *weakness in CannaVest’s control over financial reporting:*

17 In connection with our recent audit of the financial statements of  
 18 CannaVEST Corp. (the Company) as of December 31, 2012 and for the  
 19 year then ended, in accordance with auditing standards promulgated by the  
 20 Public Company Accounting Oversight Board (United States) (PCAOB),  
 21 we considered the Company’s internal control over financial reporting  
 22 (“internal control”) as a basis for designing our auditing procedures for the  
 23 purpose of expressing our opinion on the financial statements, but not for  
 24 the purpose of expressing an opinion on the effectiveness of the  
 25 Company’s internal control.

26 Our consideration of internal control was for the limited purpose described  
 27 in the preceding paragraph and would not necessarily identify all  
 28 deficiencies in internal control that might be significant deficiencies or  
 material weaknesses and therefore, there can be no assurance that all  
 deficiencies, significant deficiencies, or material weaknesses have been  
 identified. However, as discussed below, *we identified a deficiency in the*  
*Company’s internal control that we consider to be a significant*  
*deficiency and material weakness.*

A deficiency in internal control exists when the design or operation of a  
 control does not allow management or employees, in the normal course of  
 performing their assigned functions, to prevent, or detect and correct  
 misstatements on a timely basis. A significant deficiency is a deficiency, or  
 a combination of deficiencies, in internal control that is less severe than a  
 material weakness, yet important enough to merit attention by those  
 charged with governance. *A material weakness is a deficiency, or a*  
*combination of deficiencies, in internal control, such that there is a*  
*reasonable possibility that a material misstatement of the entity’s*  
*financial statements will not be prevented, or detected and corrected on a*  
*timely basis.*

\*\*\*

(Emphasis added).

(OTC:MJNA) and PhytoSPHERE Systems are pleased to inform shareholders and the general public that the company has expanded hemp



1 production significantly. With the expansion, the company has increased  
 2 production of the industry's first natural pharmaceutical-grade CBD-rich  
 3 oils and derivatives. ***The increased capacity to 6,000 tons of raw base  
 material from 2,000 tons will make PhytoSPHERE Systems one of the  
 largest hemp production companies in the world.***

4 PhytoSPHERE Systems has recently created US Hemp Oil Corp, which is  
 5 currently developing the Pet industries first CBD-based Pet Care product  
 6 line- "Cibdex" as well as an exclusive CBD-cannabinoid Skin Care Line  
 aptly named "Cibaderm".

7 Increase of Hemp Production to an estimated 6,000 Tons for 2013 Harvest

8 ***PhytoSPHERE Systems has informed shareholders that the company has  
 added 4,000 tons of raw hemp to the present production capabilities of  
 2,000 tons. The increase in hemp based raw materials increases the  
 company's production capabilities of CBD-rich oils as well as allows the  
 company to increase its production of other cannabinoid rich hemp oils  
 such as Cannabigerol (CBG). Furthermore, this production increase is  
 expected to add the equivalent of 450 tons of Cannabinoid-rich hemp oil  
 to overall reserves- an increase of 300 tons. With the recent licensing  
 agreement with CannaVest Corp the opportunity was created for this  
 increased production which in turn lowered the overall cost of the raw  
 ingredients significantly.*** These costs savings will eventually lead to lower  
 14 sales prices for finished goods for consumers.

15 PhytoSPHERE to Invest in Hemp Harvesting and Product Equipment

16 PhytoSPHERE Systems, in order to keep up with expanding worldwide  
 17 hemp production, has announced the company will invest in a series of new  
 18 hemp harvesting and production equipment. This will allow for the added  
 in-ground production to be processed and handled in an efficient manner  
 while keeping the integrity of the supply chain intact and increasing the  
 quality of the production.

19 PhytoSPHERE to Expand Product Capabilities into Pharmaceutical Market  
 20 PhytoSPHERE Systems has additionally announced that it will expand  
 21 production of cannabidiolic acid (CBD-A) and various terpenes/terpenoids  
 22 in line with increased demand from pharmaceutical companies and  
 research bodies. PhytoSPHERE will also start to produce significant  
 23 quantities of a second cannabinoid - cannabigerol (CBG). These  
 simultaneous developments will enable the company to explore additional  
 combinations of products within new and expanding product lines.  
 24 Research has shown that combining various cannabinoids and terpenoids  
 have increased the overall effects of a single component cannabinoid  
 product. This effect has been coined the "Entourage Effect". The company  
 25 is positioning itself to supply large quantities of naturally derived  
 26 cannabinoids, terpenes\terpenoids to the pharmaceutical industry as an  
 additive\enhancing ingredient to their current product portfolio's whereby  
 27 making the products have the "Entourage Effect" or be more effective  
 28 against the companies target demographic.

(Emphasis added).

55. On July 31, 2013, Medical Marijuana, Inc. issued the following press release:

SAN DIEGO, CA, July 31, 2013 - (eTeligis via ACCESSWIRE)- Medical Marijuana Inc. (OTC Pink: MJNA) is pleased to announce that their subsidiary company, Canipa Holdings ([www.canipaholdings.com/](http://www.canipaholdings.com/)), has signed an exclusive worldwide distribution and marketing agreement with a prominent European-based pharmaceutical/nutraceutical/cosmetics company. Canipa Holdings will manage the marketing and distribution of the European company's portfolio of over twenty hemp-based consumer products. The products will be added to the HempMeds PX platform.

"Some of the products Canipa Holdings will be marketing and selling are approved for specific medical claims in parts of the European market," says Charles Vest, Director of Communications for HempMeds PX, the marketing company for Medical Marijuana Inc. and all MJNA subsidiary companies. "We want to make clear, however, that these products will be marketed as consumer-only in the United States and its territories."

In the largest transaction that the company has signed to date, Canipa Holdings has also acquired the exclusive online marketing and sales rights for this new portfolio of hemp-based products (excluding The Middle East, Poland, Czech Republic, Hungary, Slovakia, and Latvia). Finally, Canipa Holdings will be the exclusive retail store/brick-and-mortar distributor for these new hemp-based products in all United States and territories as well as Canada and Mexico. The company will seek to negotiate additional territories as markets become viable.

"Nothing like these products exist today," continues Vest. "The European Union (EU), through the European Medicines Agency, is already well aware of the potential health and wellness applications for hemp-based products, evidenced by the fact that this new product portfolio that Canipa has acquired is marketed for specific ailments in parts of the EU."

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About HempMeds PX

***HempMeds PX is the master distributor and contracted marketing company for the CannaVest Corp. and Medical Marijuana, Inc. (OTC Pink: MJNA) portfolio of products, including their revolutionary hemp-based CBD products.*** HempMeds PX offers mainstream marketing, sales, customer service, and logistics for the cannabis industry. In addition to handling sales and distribution, HempMeds PX is the communication hub for the Medical Marijuana Inc. portfolio of companies.

(Emphasis added).

///



1           56. On August 13, 2013, Medical Marijuana, Inc. issued the following press  
2 release:

3           SAN DIEGO, Aug. 13, 2013 (GLOBE NEWSWIRE) -- Medical  
4 Marijuana, Inc. (OTC:MJNA), a leading cannabis and hemp industry  
5 innovator, today announced the release of its quarterly financial and  
6 shareholders report (Post 8/13/2013 - OTC Markets). The company earned  
7 a net income of approximately \$6.0 million on gross income of  
8 approximately \$8.8 million for the quarter ending June 30, 2013. The  
9 company launched its highly anticipated marketing and sales arm,  
10 HempMeds PX; selected officers for CanChew Biotechnologies; and  
acquired several additional brands and over 20 products through Canipa  
Holdings. To better manage the company's growth, Medical Marijuana Inc.  
relocated to a larger facility in July to accommodate the new HempMeds  
PX team and to expand its warehouse and distribution capabilities. Below  
are the company's second quarter 2013 operating and developmental  
highlights.

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11           In addition to working with MJNA and CannaVest, HempMeds PX  
12 anticipates offering mainstream marketing, sales, customer service, and  
13 logistics for the cannabis industry in the future. Launched the Marketing  
and Sales for CBD-Rich Hemp Oil (Hemp based Cannabidiol) Real  
14 Scientific Hemp Oil (RSHO)

15           57. On September 27, 2013, Medical Marijuana, Inc. issued the following press  
16 release:

17           SAN DIEGO, Sept. 27, 2013 (GLOBE NEWSWIRE) -- *Medical*  
18 *Marijuana Inc. (OTC Pink: MJNA) is pleased to inform shareholders*  
19 *and the general public that HempMeds PX - a corporate portfolio*  
20 *company of Medical Marijuana Inc. and the exclusive master distributor*  
21 *and contracted marketing company for CannaVest Corp. and Medical*  
22 *Marijuana Inc. - entered the "High CBD (cannabidiol) Award"- winning*  
*product at the High Times Medical Cannabis Cup in Seattle,*  
*Washington.* Submitted by HempMeds PX on behalf of PhytoSPHERE  
Systems, the prototype product CBD Simple tested at a record 95.8% CBD,  
the highest CBD percentage ever documented at the Cannabis Cup.

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23           "The enthusiasm for high-CBD products at the Cup represents a huge shift  
24 in cannabis culture," said Chris Boucher, Vice President of Product  
Development for HempMeds PX. "This was the first time the company  
25 entered any products into a competition of this kind, and we are thrilled  
with the result. The support for what we are doing from the cannabis  
26 community was overwhelming."

27           Michael Mona Jr., President and CEO of CannaVest Corp., accepted the  
award in Seattle on behalf of PhytoSPHERE Systems and HempMeds PX.  
28 "We are very thankful for the hard work of our friends at HempMeds PX,  
and for the incredible PhytoSPHERE team that produced this game-  
changing product. We are excited to work together to bring standardized,  
hemp-based high CBD products to the market," said Mona Jr.

(Emphasis added).

58. On November 21, 2013, Medical Marijuana, Inc. issued the following press release:

SAN DIEGO, Nov. 21, 2013 (GLOBE NEWSWIRE) -- Medical Marijuana, Inc. (OTC:MJNA), a leading cannabis and industrial hemp industry innovator, today announced the release of its quarterly financial and shareholders report (Post 11/15/2013 - OTC Markets). The Company earned a net income of approximately \$7.9 million on gross income of approximately \$10.4 million, derived from sales and the quarterly PhytoSPHERE payment, for the quarter ending September 30, 2013. HempMeds PX - a corporate portfolio company of Medical Marijuana Inc. and the exclusive master distributor and contracted marketing company for CannaVest Corp. and Medical Marijuana Inc. - acquired the marketing contracts for the highly anticipated Cibdex, Cibaderm, and HempVAP product lines, adding additional revenue potential for MJNA. In addition, the Company retained Cheryl Shuman as a spokesperson; exhibited at trade shows nationwide; initiated philanthropic efforts directed towards seizure-related disorder research; and submitted/represented two award-winning hemp-based cannabidiol (CBD) products, including the 2013 High Times Medical Cannabis Cup "high CBD" concentrate winner. Below are the Company's third quarter 2013 operating and developmental highlights. Operating highlights for the third quarter are as follows:

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HempMeds PX

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Regarding the CannaVest "offering": The money being raised from the sale of the restricted common stock will enable CannaVest to increase harvests and production, which will lower overall cost of hemp CBD. This in turn will enable MJNA and our subsidiaries to have higher margins and to lower the overall cost to the consumer, thereby increasing availability and affordability of hemp CBD. The Company supports this action and anticipates stable, long-term growth from this offering. As of this writing, CannaVest (OTC:CANV) stock remains at \$25.50/share.

(Emphasis added).

59. And on February 5, 2014, Medical Marijuana, Inc. issued the following press release:

Medical Marijuana Inc.'s HempMeds PX Expands Sales Efforts Based on PhytoSPHERE Systems 1,500% Increase in Industrial Hemp Cannabidiol (CBD) Oil Production

Production Capabilities of Award-Winning CBD-Rich Hemp Oil Scales Up to Address Growing Global Demand

February 5, 2014

SAN DIEGO, Feb. 5, 2014 (GLOBE NEWSWIRE) -- Medical Marijuana Inc. (OTC Pink:MJNA) would like to inform shareholders and the general public that HempMeds PX™ - a corporate portfolio company of Medical Marijuana Inc. and the exclusive master distributor and contracted marketing company for CannaVest Corp. and Medical Marijuana Inc. - is actively expanding global sales based on CannaVest Corp. (OTC:CANV)'s subsidiary, PhytoSPHERE Systems' 1,500% increase in production capability for industrial hemp-based cannabidiol (CBD) oil. PhytoSPHERE's San Diego laboratory houses specialized equipment for high pressure processing of the world's most abundant source of industrial hemp-based CBD oil.

(Emphasis added).

60. The effect of these releases and the other wrongful conduct alleged herein was that the market and investors were misled about the value of CannaVest's common stock and about its corporate affairs.

61. During the majority of the Relevant Period, the small number of employees at the Company—five to eight—(and particularly the lack of employees qualified to handle public company financial reporting matters) and the complete absence of internal control over financial reporting (particularly the fact that Defendant Mona, Jr. served both as the Company's CEO/President and CFO) permitted Defendant Mona, Jr. and the other Defendants to manipulate the Company's accounting to suggest that the PhytoSphere acquisition was much more valuable than it actually was and the Company's financial position and results of operations were better than they actually were.

### **FALSE AND MISLEADING STATEMENTS**

#### **1. CannaVest's Relevant Period Financial Statements were Not Presented in Accordance with GAAP and were Materially False and Misleading**

62. Generally accepted accounting principles ("GAAP") are those principles recognized by the accounting profession as the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. Those principles are the official standards adopted by the American Institute of Certified Public Accountants ("AICPA"), a private professional association, through three successor

1 groups it established: the Committee on Accounting Procedure, the Accounting  
2 Principles Board, and the Financial Accounting Standards Board (“FASB”).

3 63. On July 1, 2009, FASB approved the Accounting Standards Codification  
4 (“ASC” or the “Codification”) as the single source of authoritative U.S. accounting and  
5 reporting standards, other than guidance issued by the SEC. The Codification is effective  
6 for interim and annual periods ending after September 15, 2009. All existing accounting  
7 standards documents are superseded as described in FASB Statement No. 168, *The*  
8 *FASB Accounting Standards Codification and the Hierarchy of Generally Accepted*  
9 *Accounting Principles*. All other accounting literature – other than SEC accounting  
10 literature and guidance – not included in the Codification is non-authoritative.

11 64. The Codification reorganizes the thousands of U.S. GAAP pronouncements  
12 into roughly 90 accounting topics and displays all topics using a consistent structure. It  
13 also includes relevant SEC guidance that follows the same topical structure in separate  
14 sections in the Codification.

15 65. *The Codification does not change GAAP*, it introduces a new structure –  
16 one that is organized in an easily accessible, user-friendly online research system.

17 66. Compliance with GAAP is a basic fundamental obligation of publicly  
18 traded companies. As set forth in SEC Rule 4-01(a) of SEC Regulation S-X, “[f]inancial  
19 statements filed with the [SEC] which are not prepared in accordance with [GAAP] will  
20 be presumed to be misleading or inaccurate.” 17 C.F.R. § 210.4-01(a)(1).

## 21 **2. 2013 First Quarter 10-Q and Press Release**

22 67. On May 20, 2013, CannaVest filed with the SEC its Form 10-Q for the first  
23 quarter ended March 31, 2013 (“2013 First Quarter 10-Q”). This Form 10-Q and the  
24 accompanying Sarbanes-Oxley Certification were signed by Defendant Mona, Jr.

25 68. The Company’s accounting recognition for the PhytoSphere transaction  
26 was first reported in the financial statements included in CannaVest’s 2013 First Quarter  
27 10-Q. In these financial statements CannaVest reported intangible assets of \$33,656,833  
28 and a current liability in the amount of \$30,500,000 for the remaining balance owed

69. MJNA from the “PhytoSphere Agreement.” The Company also reported revenues of \$1,275,000 and costs of goods sold in the amount of \$501,500.

70. With respect to related party transactions, CannaVest disclosed in the 2013 First Quarter 10-Q:

## **RELATED PARTY TRANSACTIONS**

### **Stockholders**

On March 1, 2013, the Company issued a Promissory Note (the “Note”) to Roen Ventures, LLC, a Nevada limited liability company (“Roen Ventures”), in exchange for loans provided and to be provided in the future in an amount of up to \$2,000,000. As of March 31, 2013, the balance on the Note was \$430,500. The Note is an unsecured obligation of the Company accruing interest at 5% that is due and payable in two (2) years, on March 1, 2015. The Company’s President and member of the Board of Directors, Michael Mona, Jr., holds a 50% interest in Roen Ventures.

71. The Company made the same disclosures in an amended quarterly report for the first quarter ended March 31, 2013 filed with the SEC on Form 10-Q/A on May 30, 2013.

72. On June 20, 2013, the Company issued a press release entitled, “CannaVest Corp. Announces First Quarter 2013 Earnings and PhytoSphere Systems Increase in Hemp Production and Expansion of Additional Product Lines.” The press release provided in part:

SAN DIEGO, June 20, Jun 20, 2013 (GLOBE NEWSWIRE via COMTEX) -- CannaVest Corp. (OTC:CANV) is pleased to inform shareholders and the general public of the release of First Quarter 2013 earnings. CannaVest Corp. has reported revenues of \$1.275 million and gross profit of \$773,500 during the first full quarter of company operations, with net income of \$337,941, \$0.04 per share. The company's full quarterly report and financial statements can be found in the Form 10-Q/A filed by the company with the Securities and Exchange Commission (SEC) on May 30, 2013 ([www.sec.gov](http://www.sec.gov)).

### **First Quarter 2013 Results**

*The company's financial performance over the first quarter of 2013 was driven by the sale of raw hemp product to third parties.* During the first quarter of 2013 the company sold and shipped to third parties 51 kilograms of finished CBD products.



1 *"After the commencement of our business and acquisition of production*  
 2 *and supply agreements from Phytosphere Systems in January 2013, we*  
 3 *are pleased to report that we are buying and selling to third parties*  
 4 *substantial inventories of raw hemp product, which generated our net*  
 5 *income of \$337,941 in the first quarter of 2013,"* Michael Mona, Jr.,  
 6 Chief Executive Officer of CannaVest Corp. said. "We plan to substantially  
 increase our production capabilities through our existing supply chain  
 partners, and add new partners, with the goal of being the industry leader in  
 the production of natural pharmaceutical-grade CBD-rich oils, and one of  
 the largest hemp production companies in the world."

7 (Emphasis added).

8 73. Defendants' statements above were materially false and misleading in that  
 9 they misrepresented CannaVest's financial position and results of operations and that the  
 10 Company's financial statements complied with GAAP when they did not. Among other  
 11 things, Defendants overstated intangible assets and omitted a material related party  
 12 transaction (that 100% of the Company's revenues for the quarter were derived from  
 13 sales to related party Medical Marijuana, Inc.).

### 14 **3. 2013 Second Quarter 10-Q**

15 74. On August 13, 2013, CannaVest filed with the SEC its Form 10-Q for the  
 16 second quarter ended June 30, 2013 ("2013 Second Quarter 10-Q"). This Form 10-Q and  
 17 the accompanying Sarbanes-Oxley Certification were signed by Defendant Mona, Jr.

18 75. In its financial statements included in the 2013 Second Quarter 10-Q  
 19 CannaVest reported \$26,998,125 in goodwill and \$4,995,895 in intangible assets.

20 76. CannaVest made no related party disclosures in the 2013 Second Quarter  
 21 10-Q.

22 77. Defendants' statements above were materially false and misleading in that  
 23 misrepresented CannaVest's financial position and results of operations and that the  
 24 Company's financial statements complied with GAAP when they did not. Among other  
 25 things, defendants overstated goodwill and intangible assets and failed to disclose a  
 26 material related party transaction (that 100% of the Company's revenues for the quarter  
 27 were derived from sales to related party Medical Marijuana, Inc.).

28 ///

1           **4.     2013 Third Quarter 10-Q**

2           78.    On November 14, 2013, CannaVest filed with the SEC its Form 10-Q for  
3 the third quarter ended September 30, 2013 (“2013 Third Quarter 10-Q”). This Form 10-  
4 Q and the accompanying Sarbanes-Oxley Certification were signed by Defendant Mona  
5 Jr.

6           79.    In its financial statements included in the 2013 Third Quarter 10-Q the  
7 Company reported \$4,466,666 in intangible assets and an impairment of goodwill in the  
8 amount of \$26,998,125.

9           80.    CannaVest made no related party disclosures in its 2013 Third Quarter 10-  
10 Q.

11          81.    Defendants’ statements above were materially false and misleading in that  
12 misrepresented CannaVest’s financial position and results of operations and that the  
13 Company’s financial statements complied with GAAP when they did not. Among other  
14 things, Defendants overstated goodwill and intangible assets and omitted a material  
15 related party transaction (that 100% of the Company’s revenues for the quarter were  
16 derived from sales to related party Medical Marijuana, Inc.).

17           **5.     CannaVest Overstated its Goodwill and Intangible Assets**

18          82.    CannaVest’s accounting recognition for the PhytoSphere transaction was  
19 first reported in the Company’s first quarter 2013 financial statements. Specifically,  
20 CannaVest reported intangible assets of \$33,656,833 and no goodwill. The Company  
21 also reported revenues of \$1,275,000 and costs of goods sold in the amount of \$501,500.

22          83.    In its second quarter 2013 financial statements, CannaVest reported  
23 \$26,998,125 in goodwill and \$4,995,895 in intangible assets.

24          84.    In its third quarter 2013 financial statements, CannaVest reported  
25 \$4,466,666 in intangible assets and an impairment of goodwill in the amount of  
26 \$26,998,125.

27          85.    On April 3, 2014, CannaVest acknowledged for the first time that it had  
28 misreported its financial position and its results of operations on the Company’s Forms



1 10-Q for the quarters ended March 31, 2013, June 30, 2013, and September 30, 2013,  
 2 and as such, CannaVest's 2013 first, second, and third quarter financial statements  
 3 included in the Forms 10-Q could no longer be relied upon and would need to be  
 4 restated. More specifically, the press release stated, in part:

5 The Company has determined that it is necessary to correct such errors  
 6 because the allocation methodology used by management, the resulting  
 7 carrying amount of intangible assets and goodwill, and the resulting  
 8 amortization cost and goodwill impairment were not in accordance with  
 9 GAAP.

86. Thus, CannaVest admitted that its financial statements for the first, second  
 9 and third quarters of 2013 were materially false and misleading. *See* 17 C.F.R. § 210.4-  
 10 01(a)(1).

87. Subsequently, CannaVest disclosed:

12 ***Specifically, management determined that the purchase price and the***  
 13 ***allocation of the purchase price [of PhytoSphere] as previously disclosed***  
 14 ***in the Forms 10-Q were not in accordance with accounting principals***  
 15 ***generally accepted in the United States ("GAAP").*** The Company  
 16 initially reported the acquisition of the Assets (the "Transaction") based on  
 17 the negotiated purchase price of \$35 million which had a floor and ceiling  
 18 locked on the value of the Company's common stock to be issued of  
 19 between \$4.50 and \$6.00, as reflected in the Agreement for Purchase and  
 20 Sale of Assets entered into by the Company and PhytoSPHERE. In  
 21 reviewing the price that the Company's common stock was trading at  
 22 during the year, ***management determined that although the negotiated***  
 23 ***price of the Transaction was \$35 million, that price may not represent***  
 24 ***the fair market value of the Assets acquired. As a result, management***  
 25 ***determined that obtaining a valuation of the Assets would be required in***  
 26 ***order to determine the fair value of the Assets acquired.*** The valuation  
 27 resulted in a fair value of approximately \$8 million. Accordingly,  
 28 management concluded that the valuation of \$8 million for the Assets to  
 be the most reliable measure of fair value of the Transaction for the  
 Company. In addition, management determined that sales and cost of sales  
 for the quarter ended March 31, 2013 were incorrect.

(Emphasis added).

88. CannaVest further disclosed that as a result, the carrying amount of  
 intangible assets and goodwill in the Company's condensed consolidated balance sheets  
 included in the Company's first, second and third quarter Forms 10-Q would be reduced.  
 For example, for the first quarter 2013, the Company disclosed:

1 Intangible assets as presented in the financial statements as of March 31,  
2 2013 were in error. The financial statements previously included  
3 \$34,045,000 of intangible assets acquired in connection with the  
4 PhytoSPHERE Transaction, which were labeled as goodwill on the  
5 statement of cash flows and classified as intangible assets on the balance  
sheet. As determined by the valuation of the assets purchased under the  
PhytoSPHERE Agreement, intangible assets totaled \$4,110,000 and  
goodwill totaled \$1,855,512.

6 89. CannaVest's accounting irregularities were the result of the Defendants'  
7 intentional or reckless misapplication of clear accounting principles. It was also, as  
8 further described below, the result of Defendants' conscious failure to implement  
9 effective control over CannaVest's financial reporting. As a result of Defendants'  
10 accounting irregularities, CannaVest overstated its intangible assets for the first, second  
11 and third quarters of 2013, its goodwill was for the second quarter of 2013, and its  
12 revenues for the first quarter 2013.

13 90. In its Form 10-K for the year ended December 31, 2013, filed with the SEC  
14 on March 28, 2014, CannaVest disclosed that it had "accounted for the acquisition of the  
15 assets of PhytoSphere Systems, LLC in accordance with the Accounting Standards  
16 Codification ("ASC") Topic 805, Business Combinations ("ASC Topic 805')." "ASC  
17 Topic 805 establishes principles and requirements for recognizing and measuring the  
18 total consideration transferred to and the assets acquired, liabilities assumed and any  
19 non-controlling interests in the acquired target in an asset purchase," CannaVest  
20 disclosed. The Company further disclosed that "ASC Topic 805 also provides guidance  
21 for recognizing and measuring goodwill acquired and other tangible and intangible  
22 assets."

23 91. GAAP required CannaVest to account for its acquisition of the assets of  
24 PhytoSphere pursuant to the requirements of ASC 805, *Business Combinations*. It  
25 appears that the Company utilized the acquisition (purchase) method prescribed under  
26 certain provisions of ASC 805. Under the purchase method of accounting, the assets  
27 acquired and liabilities assumed are initially recorded at their respective fair market  
28 values. The excess of the purchase price over the fair value of the net assets acquired is

1 recognized and reported as an asset called goodwill. Goodwill is considered to be an  
2 asset because future benefits are expected from it in combination with the future benefits  
3 of other assets acquired in the acquisition.

4 92. ASC 805 provides guidance on the accounting and reporting for  
5 transactions that represent business combinations to be accounted for under the  
6 acquisition method. ASC 805-10-05-1; ASC 805-10-05-4.

7 93. The acquisition method requires the acquirer to recognize, separately from  
8 goodwill, the identifiable assets acquired, the liabilities assumed, and any non-  
9 controlling interest in the acquiree. ASC 805-20-25-1.

10 94. Moreover, the acquirer shall recognize separately from goodwill the  
11 identifiable intangible assets acquired in the business combination. An intangible asset is  
12 identifiable if it meets either the separability criterion or the contractual-legal criterion  
13 described in the definition of identifiable. ASC 805-20-25-10.

14 95. An asset is separable if it is capable of being separated or divided. An  
15 intangible asset meets the contractual-legal criterion if it arises from contractual or other  
16 legal rights, regardless of whether those rights are transferable or separable from the  
17 entity of from other rights and obligations. ASC 805-10-20. (Glossary).

18 96. The acquirer shall measure the identifiable assets acquired, the liabilities  
19 assumed, and any non-controlling interest in the acquiree at their acquisition-date fair  
20 values. ASC 805-20-30-1.

21 97. As set forth above, Defendants allowed the Company to violate GAAP in  
22 that it misapplied clear accounting principles.

23 98. CannaVest, Mona, Mackay, Titus and Llamas were all sued by a proposed  
24 class of shareholders for securities fraud in the United States District Court for the  
25 Southern District of New York<sup>3</sup> and by the SEC in the United States District Court for  
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28 <sup>3</sup> *In re CannaVest Corp. Securities Litigation*, 14-cv-2900 (PG) (S.D.N.Y.)

1 the District of Nevada.<sup>4</sup> Confidential Witness (“CW 1”) from the related securities fraud  
2 action, a financial consultant who joined the Company in May 2013, knew “right away”  
3 that CannaVest had misapplied its accounting and the Company’s financial statements  
4 would need to be restated. CW 1, a financial consultant specializing in the life sciences  
5 field, served as a consultant for and at CannaVest from about May 2013 until  
6 CannaVest’s audit was completed the following spring of 2014. CW 1 worked directly  
7 with Defendant CEO Mona, Jr., and reported frequently to the CannaVest Board of  
8 Directors, including non-party Wilson, a CPA and a Director of CannaVest at the time.

9 99. As soon as CW 1 started working with CannaVest, CW 1 said, he/she  
10 recognized immediately that a restatement of the Company’s financial statements would  
11 be needed due to the way goodwill had been booked and as a result of unreliable  
12 valuation methods used for same. Specifically, immediately upon viewing the most  
13 recent quarterly statement (2013 Q1), CW 1 noticed that CannaVest was improperly  
14 amortizing goodwill from the PhytoSphere acquisition, which CW 1 recognized as  
15 improper accounting.<sup>5</sup> However, CW 1 said, the specific restatement could not be known  
16 until a full audit had been conducted. “I knew we were going to have to get a re-  
17 evaluation on the assets, but I didn’t want to restate with incomplete information,” CW 1  
18 said.

19 100. That CannaVest had improperly amortized goodwill was a red flag for CW  
20 1 because goodwill is not supposed to be amortized but instead is supposed to be tested  
21 annually for any impairment. CW 1 also saw plainly that the inventory was valued by a  
22 dollar figure per kilogram, while sales prices were based on the percentage of  
23 cannabidiol in each product. This inconsistency made no sense to CW 1.

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26 <sup>4</sup> *Securities and Exchange Commission v. CannaVest Corp. a/k/a CV Sciences, Inc. and Michael*  
27 *J. Mona, Jr.*, 2:17-cv-01681-APG-PAL (D. Nev.).

28 <sup>5</sup> As admitted by the Company, *see above*, CannaVest amortized its intangible assets in the first  
quarter 2013, recognizing it as a non-cash expense item for amortization of goodwill in its cash flow  
statement for that same quarter.

1           101. CW 1 said the discussion about the need to restate began after CW 1's  
2 arrival in May 2013 and that it took place between CW 1 and Defendant CEO Mona, Jr.  
3 and members of the Company's Board of Directors. CW 1 said his/her notes and access  
4 to correspondence are gone, but some of these discussions likely took place through  
5 written reports, memorandums and/or emails. "My notes are gone [but] I recall that I  
6 mentioned that [re-valuation of assets and restatement] to Mike [Mona Jr.] once, if not  
7 more than once, and probably [to] the board," CW 1 said. CW 1 revealed that there were  
8 extensive discussions among top management, the auditors and counsel as to whether or  
9 not the Company would have to restate its financials. "I remember hearing, 'Oh, it  
10 makes us look like we don't know what we're doing,'" CW 1 said, regarding the  
11 discussions with Defendant CEO Mona, Jr. and the Board of Directors.

12           102. CW 1 believes CannaVest's original valuation of its acquisition of  
13 PhytoSphere was conducted by then-Director Wilson. Wilson was a partner in the Las  
14 Vegas CPA firm, Wilson & Company.

15           **6. CannaVest Failed to Disclose Material Related Party**  
16           **Transactions in Violation of GAAP**

17           103. GAAP and SEC regulations provide that a public company and its  
18 management must disclose related party transactions in financial statements filed with  
19 the SEC. ASC provides guidance on, and requirements for, the disclosure of transactions  
20 with related parties.

21           104. ASC 850-10-50-1 provides that financial statements shall include  
22 disclosures of material related party transactions, other than compensation arrangements,  
23 expense allowances, and other similar items in the ordinary course of business.

24           105. For SEC Registrants, such as CannaVest, SEC Regulation S-X, Rule 4-  
25 08(k)(1) sets forth the following additional requirements with respect to financial  
26 statements required to be filed with the SEC in that related party transactions should be  
27 identified and the amounts stated on the face of the balance sheet, income statement, or  
28 statement of cash flows.



1           106. On April 24, 2014 — CannaVest disclosed for the first time that 100% of  
2 its revenues from each of the first, second, and third quarters 2013 were from sales to  
3 related party Medical Marijuana, Inc.

4           107. That all CannaVest's sales were made to Medical Marijuana, Inc. was  
5 material to investors. Indeed, GAAP provides that *transactions involving related parties*  
6 *cannot be presumed to be carried out on an arm's-length basis, as the requisite*  
7 *conditions of competitive, free-market dealings may not exist.* ASC 850-10-50-5. As  
8 generally accepting auditing standard, AU § 334.12 explains, "it will generally not be  
9 possible to determine whether a particular transaction would have taken place if the  
10 parties had not been related, or assuming it would have taken place, what the terms and  
11 manner of settlement would have been." It is precisely because related party transactions  
12 lend themselves to favorable terms and/or fraudulent conduct that might not exist in  
13 transactions between unrelated parties that GAAP requires disclosure of material related  
14 party transactions. "*Information about transactions with related parties that would*  
15 *make a difference in decision making shall be disclosed so that users of the financial*  
16 *statements can evaluate their significance.*" ASC 850-10-05-10 (emphasis added).

17           108. Related parties may enter into transactions that give the appearance of  
18 having been conducted on an arm's-length basis in order to misrepresent the actual risk  
19 of the enterprise. As such, the potential for fraud or misconduct is significant because  
20 related party transactions provide an excellent opportunity to hide malfeasance. By  
21 failing to record related party transactions or reveal the related party nature, insiders can  
22 use these transactions to disguise compensation, misappropriate assets, and/or misstate  
23 financial statements. Even if misrepresentation is not intended, the nature of related  
24 party transactions is such that their terms may be more favorable than those attainable by  
25 an outside party. As a consequence, the economic reality of a particular business event  
26 may not be apparent without complete disclosure.

27           109. A further concern about related party transactions is the possibility that the  
28 parties are committing fraud. *Id.* at 9. The auditing interpretation to Statements on the

1 Auditing Standards No. 45 (AU § 334) states that the “*risk associated with*  
 2 *management’s assertions about related party transactions is often assessed as higher*  
 3 *than for many other types of transactions because of the possibility that the parties to*  
 4 *the transaction are motivated by reasons other than those that exist for most business*  
 5 *transactions*” *Id.* (Emphasis added).

6 110. Defendants failed to disclose that all of the Company’s revenues for the  
 7 first, second and third quarters of 2013 were from sales to a related party. As a result,  
 8 CannVest’s financial statements for each of these quarters were not compliant with  
 9 GAAP and were materially false and misleading.

10 **7. Throughout and Prior to the Relevant Period, as Defendants Knew,**  
 11 **CannaVest had Significant Deficiencies and Material Weaknesses in its**  
 12 **Control Over Financial Reporting**

13 111. CannaVest has a history of “significant deficienc[ies]” and “material  
 14 weakness[es]” in its control over financial reporting which predated and continued  
 15 throughout the Relevant Period. Defendants were aware of these material weaknesses  
 16 prior to and throughout the Relevant Period. Defendants were at a minimum culpably  
 17 reckless in misrepresenting that the Company’s financial statements complied with  
 18 GAAP, despite their knowledge that significant deficiencies and material weaknesses in  
 19 CannaVest’s control over financial reporting had not been remediated at the time such  
 20 statements were made, and thus Defendants had no basis for allowing the Company to  
 21 make such representations.

22 112. Subsequently, in its Forms 10-Q for the first quarter ended March 31, 2013,  
 23 second quarter ended June 30, 2013, and third quarter ended September 30, 2013  
 24 CannaVest reported material weaknesses in its internal control over financial reporting:  
 25 “The Company’s management has identified a material weakness in the effectiveness of  
 26 internal control over financial reporting related to a shortage of resources in the  
 27 accounting department required to assure appropriate segregation of duties with  
 28 employees having appropriate accounting qualifications related to the Company’s  
 unique industry accounting and disclosure rules.”

113. In its Form 10-K for the fourth quarter and year ended December 31, 2013, CannaVest made these further disclosures:

***[T]he Company's management concluded that the Company's internal controls over financial reporting were not effective in that there were material weaknesses as of December 31, 2013. ...***

A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by the Company's internal controls.

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***Management is aware that there is a lack of segregation of duties and accounting personnel with appropriate qualifications at the Company due to the small number of employees dealing with general administrative and financial matters.*** This constitutes a deficiency in the internal controls. Management has taken steps to rectify these deficiencies. The Company hired a full-time Controller in February 2014 who is focused on developing policies and procedures to require proper segregation of duties.

Management is aware that there is a lack of proper controls related to the inventory purchase cycle. Specifically, there is a lack of control functions and segregation of duties involved with purchasing and receiving inventory. This constitutes a deficiency in internal controls. The Company will implement proper controls and add additional employees to the process to improve segregation of duties.

**Management is aware of a deficiency related to improper determination of the purchase price allocation for the assets acquired related to PhytoSphere Systems. This constitutes a deficiency in internal controls. Specifically, management determined that the purchase price used and the allocation of the purchase price as previously disclosed in the Company's Form 10Q's were not in accordance with GAAP. As a result of this deficiency, Forms 10Q filed by the Company for Q1, Q2 and Q3 2013 cannot be relied upon as the information included therein is materially incorrect.**

(Emphasis added).

114. CW 1, the financial consultant who served as a consultant for and at CannaVest from about May 2013 until CannaVest's audit was completed the following spring of 2014, expounded on CannaVest's significant deficiencies and material weaknesses in the Company's control over financial reporting. Again, CW 1 worked

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1 directly with Defendant CEO Mona, Jr., and reported frequently to the CannaVest board  
2 of directors, including then-Director Wilson, a CPA.

3 115. CW 1 described his job as a consultant at CannaVest as trying to “bring  
4 order to chaos.” CW 1 said much of the chaos he/she encountered stemmed from  
5 accounting functions being handled by people ill equipped for the task. CW 1 named  
6 then-Director Wilson as an example

7 116. Then-Director Wilson was a director and President of Wilson & Company,  
8 a professional certified public accounting firm in Las Vegas, Nevada. Based on  
9 information provided by CW 1 and referenced in SEC documents, it appears that Turner  
10 & Stone took over CannaVest’s accounting from Wilson & Company. “Ed [Wilson] had  
11 been a member of the Board of Directors, and his firm had done some accounting work  
12 initially,” CW 1 said. Turner & Stone was followed by Anton & Chia (resigned  
13 November 14, 2013), which in turn was followed by PKF International (engaged  
14 January 14, 2014). Anton & Chia was serving as the Company’s auditor, doing  
15 quarterlies, CW 1 said, when he/she arrived at CannaVest, and he/she recommended its  
16 replacement.

17 117. CW 1 assumed (but did not know for sure) it was Wilson & Company that  
18 oversaw the initial transaction with PhytoSphere and the valuation of the goodwill. CW  
19 1 believed it was Wilson’s firm that improperly amortized the goodwill. CW 1 suggested  
20 that Wilson & Company was out of its element providing financial reporting services to  
21 CannaVest. “All I know is that they don’t normally play in this space,” CW 1 said,  
22 referring to complex filings for publicly traded companies. “From what I understand,  
23 they do primarily tax, and they’re probably not someone who looks at new technologies  
24 and how to value it.”

25 118. CannaVest’s Form 10-Q as filed with the SEC on or about May 20, 2013  
26 reported accounts receivable of as of March 31, 2013 in the sum of \$1,671,438,  
27 intangible assets (which included goodwill) of \$33,656,833, revenue of \$1,275,000, and  
28 Cost of Goods Sold of \$501,500. This Form 10-Q, which was signed by Defendant

1 Mona as President and CEO of CannaVest, was subsequently amended with an  
2 explanation which stated:

3 This Amendment No. 2 to Form 10-Q/A (“Amendment No.  
4 2”) amends Amendment No. 1 of the Quarterly Report of  
5 CannaVest Corp. (the “Company”) on Form 10-Q for the  
6 quarter ended March 31, 2013, as filed with the Securities and  
7 Exchange Commission on May 30, 2013 (the “Amendment  
8 1”). This Amendment No. 2 is being filed for the purpose of  
9 restating our Financial Statements, amending related  
10 disclosure in the section titled Management’s Discussion and  
11 Analysis of Financial Condition and in the Notes to Financial  
12 Statements and conforming the disclosures in the Notes to  
13 Financial Statements to those contained in the Company’s  
14 Annual Report on Form 10-K for the fiscal year ended  
15 December 31, 2013. This restatement is related to the  
16 reporting of the purchase price and allocation thereof related  
17 to the purchase of certain assets of PhytoSphere Systems,  
18 LLC. We have determined that the purchase price and  
19 allocation of the purchase price originally reported did not  
20 represent the fair market value of the transaction in  
21 accordance with accounting principals generally accepted in  
22 the United States. In addition, management determined that  
23 sales and cost of sales originally reported for the quarter  
24 ended March 31, 2013 were incorrect. This Amendment No.  
25 2 will include corrections of those amounts and resulting  
26 changes to the financial statements.

27 We have not updated the information contained herein for  
28 events occurring subsequent to May 30, 2013, the filing date  
of the Original Filing.

119. The Amended Form 10-Q contained the following disclosures which were  
omitted from the original filing with the SEC:

## 20 6. RELATED PARTY TRANSACTIONS

21 On March 1, 2013, the Company issued a Promissory Note  
22 (the “Note”) to Roen Ventures, LLC, a Nevada limited  
23 liability company (“Roen Ventures”), in exchange for loans  
24 provided and to be provided in the future in an amount of up  
25 to \$2,000,000. As of March 31, 2013, the balance on the  
26 Note was \$1,080,500. The Note is an unsecured obligation of  
the Company accruing interest at 5% that is due and payable  
in two (2) years, on March 1, 2015. The Company’s President  
and member of the Board of Directors, Michael Moná, Jr.,  
holds a 50% interest in Roen Ventures.

27 ***100% of the Company’s revenue of \$1,082,375 for the three***  
28 ***months ended March 31, 2013 and accounts receivable***  
***totaling \$1,478,813 as of March 31, 2013, were from***



*affiliates of Medical Marijuana, Inc., a stockholder of the Company.*

**7. LINE OF CREDIT - ROEN VENTURES, LLC**

On March 1, 2013, the Company entered into a lending arrangement with Roen Ventures, which is owned 50% by the Company's President, Secretary and Treasurer who is also a director. The promissory note is for up to \$2,000,000, bears interest at 5.0% and is unsecured. There are no specific repayment terms except that all unpaid principal and accrued interest is due and payable on March 1, 2015. As of March 31, 2013, the Company has a balance of \$1,080,500 on this promissory note.

120. Financial statement restatements were described as follows:

a) The financial statements for the three months ended March 31, 2013 recognized revenue and accounts receivable of \$192,625 and cost of goods sold of \$296,050 that should not have been recognized. Revenues and accounts receivable in the amount of \$192,625 related to the sales value of inventory that was transferred to a manufacturer for inclusion in finished goods and an error in calculating the price of the ending inventory as of the end of the period. Cost of goods sold in the amount of \$296,050 related to the cost of inventory sent for manufacturing in the amount of \$39,865 being included in cost of goods sold and \$256,185 relating to errors related to calculating ending inventory.

b) Not all of the prepaid inventory purchased as part of the PhytoSphere Transaction in the amount of \$1,260,510 was included in the financial statements as of March 31, 2013. This resulted in an overstatement of intangible assets and an understatement of prepaid inventory for the period. Prepaid inventory represents the amount of inventory purchased but not yet received prior to closing the Transaction, the rights to receive the inventory and subsequent receipt of inventory transferred to the Company upon closing of the Transaction.

c) Amortization expense as reported in the financial statements for the three months ended March 31, 2013, in the amount of \$378,167, was in error. Based on the restated value of assets purchased from PhytoSphere, intangible assets totaled \$4,110,000. Restated amortization on those assets for the three months ended March 31, 2013, is \$137,000, representing a decrease of \$241,167 for the period. This resulted in an overstatement of amortization expense and operating expenses of \$241,167.

d) Intangible assets as presented in the financial statements as of March 31, 2013 were in error. The financial statements previously included \$34,045,000 of intangible

assets acquired in connection with the PhytoSphere Transaction, which were labeled as goodwill on the statement of cash flows and classified as intangible assets on the balance sheet. As determined by the valuation of the assets purchased under the PhytoSphere Agreement, intangible assets totaled \$4,110,000 and goodwill totaled \$1,855,512. ***The effect of this error resulted in overstatement of intangible assets of \$28,079,488.***

e) The amount previously reported as due to PhytoSphere pursuant to the Agreement as of March 31, 2013 was reported as \$30,500,000. This was calculated based on a Transaction amount of \$35,000,000 and a set per share price between \$4.50 and \$6.00 under the Agreement. In reviewing the price that the Company's common stock was trading at during the year, subsequent to March 31, 2013, management determined that using a per share price to value the Transaction may not represent a true measure of the fair market value of the Transaction and that obtaining a valuation of the assets purchased from PhytoSphere would be required in order to determine the fair market value of the business acquired. Accordingly, management determined that the valuation of \$8,020,000 represented a more reliable measure of the fair value of the Transaction. As a result of that valuation, the per share price for shares of common stock issued to PhytoSphere was adjusted to \$1.21 to reflect the revised value of the Transaction. Accordingly, the amount recorded upon issuance of the shares of common stock to PhytoSphere and the total amount due to PhytoSphere was adjusted to reflect the value of the Transaction. ***As a result, the amount shown as due to PhytoSphere was overstated by \$23,572,360. Further, the value of the shares of common stock issued through March 31, 2013 to PhytoSphere was overstated by \$3,407,640.***

f) Inventory as originally reported in the financial statements as of March 31, 2013, was understated by \$125,027. This was a result of an overstatement of cost of goods sold in the amount of \$296,050, offset by an adjustment for the value of inventory acquired from PhytoSphere in the amount of \$171,023. (emphasis added).

121. CannaVest's Form 10-Q as filed with the SEC on or about August 13, 2013 reported accounts receivable and goodwill of \$1,561,496 and \$26,998,125, respectively, as of June 30, 2013. It also reported revenue of \$107,683 and cost of goods sold of \$16,292 for the quarter ended June 30, 2013. This Form 10-Q, which was signed by Defendant Mona as President and CEO of CannaVest, was subsequently amended with an explanation which stated:

1 This Amendment No. 1 to Form 10-Q (“Amendment No. 1”) amends the Quarterly Report of CannaVest Corp. (the  
2 “Company”) on Form 10-Q for the quarter ended June 30, 2013 as filed with the Securities and Exchange Commission  
3 on August 13, 2013 (the “10-Q”). This Amendment No. 1 is being filed for the purpose of restating our Financial  
4 Statements, amending related disclosure in the section titled Management’s Discussion and Analysis of Financial  
5 Condition and in the Notes to the Financial Statements and conforming the disclosures in the Notes to the Financial  
6 Statements to those contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31,  
7 2013.

8 This restatement is related to the reporting of the purchase price and allocation thereof related to the purchase of certain  
9 assets of PhytoSphere Systems, LLC. We have determined that the purchase price and allocation of the purchase price  
10 originally reported did not represent the fair market value of the transaction in accordance with accounting principals  
11 generally accepted in the United States. This Amendment will include corrections of those amounts and resulting  
12 changes to the financial statements.

13 We have not updated the information contained herein for events occurring subsequent to August 13, 2013, the filing  
14 date of the Original Filing.  
15

16 122. The Amended Form 10-Q contained the following disclosures which were  
17 omitted from the original filing with the SEC:

#### 18 6. RELATED PARTY TRANSACTIONS

19 On March 1, 2013, the Company entered into a lending arrangement with Roen Ventures, LLC, a Nevada limited  
20 liability company (“Roen Ventures”), which is owned 50% by the Company’s President and Chief Executive Officer who is  
21 also a director, Michael Mona, Jr. The Promissory Note (the “Note”) issued to Roen Ventures provides a line of credit up  
22 to \$4,000,000, bears interest at 5.0% and is unsecured. As previously disclosed in the Company’s Current Report on  
23 Form 8-K filed with the SEC on July 31, 2013, on July 25, 2013, the disinterested members of our Board of Directors  
24 (the “Board”) approved an amendment to the terms of the Note to increase the line of credit to \$6,000,000 and provide  
25 for the ability of Roen Ventures to convert, in its sole discretion, the outstanding balance of the Note into shares of  
26 the common stock of the Company at a conversion price to be determined following the conclusion of a valuation of the  
27 common stock of the Company. There are no specific repayment terms except that all unpaid principal and accrued  
28 interest under the Note is due and payable on July 25, 2015.

As of June 30, 2013, the Company had a balance of \$3,280,500 on this Note. Management has not yet determined the value of the conversion feature.

***At June 30, 2013, 100% of the Company's revenue of \$107,683 and \$1,190,058 for the three and six months ended June 30, 2013, respectively, and accounts receivable totaling \$1,561,496 at June 30, 2013, were from affiliates of Medical Marijuana, Inc., a stockholder of the Company.***

#### 7. LINE OF CREDIT - ROEN VENTURES, LLC

As discussed in Note 6 above, on March 1, 2013, the Company entered into a lending arrangement with Roen Ventures, which is owned 50% by the Company's President and Chief Executive Officer who is also a director, Michael Mona, Jr. The Note issued to Roen Ventures provides a line of credit up to \$4,000,000, bears interest at 5.0% and is unsecured. As previously disclosed in our Current Report on Form 8-K filed with the SEC on July 31, 2013, on July 25, 2013, the disinterested members of the Company's Board of Directors approved an amendment to the terms of the Note to increase the line of credit to \$6,000,000 and provide for the ability of Roen Ventures to convert, in its sole discretion, the outstanding balance of the Note into shares of the common stock of the Company at a conversion price to be determined following the conclusion of a valuation of the common stock of the Company. There are no specific repayment terms except that all unpaid principal and accrued interest under the Note is due and payable on July 25, 2015. As of June 30, 2013, the Company had a balance of \$3,280,500 on this Note. Management has not yet determined the value of the conversion feature. (emphasis added).

123. The Company's financial statement restatements were described as follows:

a) Amortization expense as previously reported for the three and six months ended June 30, 2013, in the amounts of \$573,325 and \$951,492, respectively, was in error. Based on the restated value of assets purchased from PhytoSphere, intangible assets totaled \$4,110,000. Restated amortization on those assets for the three and six months ended June 30, 2013 is \$205,500 and \$342,500, respectively. ***This resulted in an overstatement of amortization expense and operating expenses of \$367,825 and \$608,992 for the three and six months ended June 30, 2013, respectively.***

b) Intangible assets previously reported in the financial statements as of June 30, 2013 were in error. The financial statements previously reported \$5,947,387 of intangible assets acquired in connection with the PhytoSphere Transaction. As determined by the valuation of the assets purchased under the

PhytoSphere Agreement, intangible assets totaled \$4,110,000. This overstatement of \$1,837,387 was partially offset by an overstatement of accumulated amortization of \$608,992 as noted above. ***The resulting overstatement of intangible assets at June 30, 2013 was \$1,228,395.***

c) ***Goodwill previously reported in the financial statements at June 30, 2013 was overstated by \$25,142,613.*** The goodwill reported was \$26,998,125, previously determined based on a transaction amount of \$35,000,000 for the PhytoSphere Transaction. The valuation of acquired assets set a value of goodwill of \$1,855,512. The difference of \$25,142,613 represents the difference between these two amounts.

d) The amount previously reported as due to PhytoSphere pursuant to the PhytoSphere Agreement at June 30, 2013 was reported as \$23,750,000. This was calculated based on a Transaction amount of \$35,000,000 and a set per share price between \$4.50 and \$6.00 under the PhytoSphere Agreement. In reviewing the price that the Company's common stock was trading at during the year, subsequent to June 30, 2013, management determined that using a per share price to value the Transaction may not represent a true measure of the fair market value of the Transaction and that obtaining a valuation of the assets purchased from PhytoSphere would be required in order to determine the fair market value of the business acquired. Accordingly, management determined that the valuation of \$8,020,000 represented a more reliable measure of the fair value of the Transaction. As a result of that valuation, the per share price for shares of common stock issued to PhytoSphere was adjusted to \$1.21 to reflect the revised value of the Transaction. Accordingly, the amount recorded upon issuance of the shares of common stock to PhytoSphere and the total amount due to PhytoSphere was adjusted to reflect the value of the Transaction. As a result, the amount due to PhytoSphere was revised to \$4,963,906 and the value of common stock reflected for the shares of common stock issued as payment in the Transaction was \$2,306,094. ***As a result, the amount shown as due to PhytoSphere at June 30, 2013 was overstated by \$18,786,094 and the amount recorded for the shares of common stock issued to PhytoSphere through June 30, 2013 was overstated by \$8,193,906. (emphasis added).***

124. CannaVest's Form 10-Q as filed with the SEC on or about November 14, 2013 reported accounts receivable of \$1,661,733 and intangible assets of \$4,466,666 as of September 30, 2013. It also reported goodwill impairment of \$26,998,125, revenue of \$163,662, and cost of goods sold of \$48,551 for the quarter ended September 30,



1 2013. This Form 10-Q, which was signed by Defendant Mona as President and CEO of  
 2 CannaVest, was subsequently amended with an explanation which stated:

3 This Amendment No. 2 to Form 10-Q (“Amendment No. 2”) amends the Quarterly Report of CannaVest Corp. (the  
 4 “Company”) on Form 10-Q for the quarter ended September 30, 2013, as filed with the Securities and Exchange  
 5 Commission (the “SEC”) on November 14, 2013, as amended by the Amendment No. 1 to the Quarterly Report on Form 10-  
 6 Q for the quarter ended September 30, 2013, as filed with the SEC on November 21, 2013 (collectively, the “10-Q”). This  
 7 Amendment No. 2 is being filed for the purpose of restating our Financial Statements, amending related disclosure in the  
 8 section titled Management’s Discussion and Analysis of Financial Condition and in the Notes to the Financial  
 9 Statements and conforming the disclosures in the Notes to the Financial Statements to those contained in the Company’s  
 10 Annual Report on Form 10-K for the fiscal year ended December 31, 2013. This restatement is related to the  
 11 reporting of the purchase price and allocation thereof related to the purchase of certain assets of PhytoSphere Systems,  
 12 LLC. We have determined that the purchase price and allocation of the purchase price originally reported did not  
 13 represent the fair market value of the transaction in accordance with accounting principals generally accepted in  
 14 the United States. This Amendment No. 2 will include corrections of those amounts and resulting changes to the  
 15 financial statements.

16  
 17 We have not updated the information contained herein for events occurring subsequent to November 14, 2013, the filing  
 18 date of the Original Filing.

19 125. The Amended Form 10-Q contained the following disclosures which were  
 20 omitted from the original filing with the SEC:

#### 21 6. RELATED PARTY TRANSACTIONS

22 On March 1, 2013, the Company entered into a lending arrangement with Roen Ventures, LLC, a Nevada limited  
 23 liability company (“Roen Ventures”), which is owned 50% by the Company’s President and Chief Executive Officer who is  
 24 also a director, Michael Mona, Jr. The Promissory Note (the “Note”) issued to Roen Ventures provides a line of credit up  
 25 to \$4,000,000, bears interest at 5.0% and is unsecured. As previously disclosed in the Company’s Current Report on  
 26 Form 8-K filed with the SEC on July 31, 2013, on July 25, 2013, the disinterested members of our Board of Directors  
 27 (the “Board”) approved an amendment to the terms of the Note to increase the line of credit to \$6,000,000 and provide  
 28 for the ability of Roen Ventures to convert, in its sole

1 discretion, the outstanding balance of the Note into shares of  
2 the common stock of the Company at a conversion price to be  
3 determined following the conclusion of a valuation of the  
4 common stock of the Company. There are no specific  
5 repayment terms except that all unpaid principal and accrued  
6 interest under the Note is due and payable on July 25, 2015.  
7 As of September 30, 2013, the Company had a balance of  
8 \$4,780,500 on this Note. As of September 30, 2013,  
9 management had not yet determined the value of the  
10 conversion feature.

11 ***At September 30, 2013, 100% of the Company's accounts***  
12 ***receivable totaling \$1,661,733 were from affiliates of***  
13 ***Medical Marijuana, Inc., a stockholder of the Company.***  
14 ***For the three and nine months ended September 30, 2013,***  
15 ***the Company recognized revenues of \$163,662 and***  
16 ***\$1,353,720, respectively. 100% of those revenues related to***  
17 ***sales to affiliates of Medical Marijuana, Inc.***

#### 18 7. LINE OF CREDIT - ROEN VENTURES, LLC

19 As discussed in Note 6 above, on March 1, 2013, the  
20 Company issued the Note to Roen Ventures, in exchange for  
21 loans provided and to be provided in the future in an amount  
22 of up to \$2,000,000, which was subsequently increased to  
23 \$4,000,000, then further increased to \$6,000,000. As of  
24 September 30, 2013, the balance on the Note was \$4,780,500.  
25 The Note is an unsecured obligation of the Company accruing  
26 interest at 5% that is due and payable in two years, on July  
27 25, 2015. The Company's President and member of the  
28 Board, Michael Mona, Jr., holds a 50% interest in Roen  
Ventures. As previously disclosed in our Current Report on  
Form 8-K filed with the SEC on July 31, 2013, the  
disinterested members of our Board approved an amendment  
to the terms of the Note to increase the credit line to  
\$6,000,000 and provide for the ability of Roen Ventures to  
convert, in its sole discretion, the outstanding balance of the  
Note into shares of the common stock of the Company at a  
conversion price determined following the conclusion of a  
valuation of the Company's common stock.

Subsequent to September 30, 2013, the valuation determined  
pursuant to Financial Accounting Standards Board  
Accounting Standards Codification 718 Stock Compensation,  
(the "Valuation") determined that the fair market value of our  
restricted common stock is \$0.68 per share. On November 7,  
2013, disinterested members of the Board approved an  
amendment to the Note to allow for conversion of the Note at  
a conversion price equal to \$0.60 per share, which represents  
a discount of approximately 12% off the fair market value of  
our restricted common stock. As of November 14, 2013, the  
balance of the Note is \$6,000,000. Roen has informed the  
Board it intends to convert the outstanding balance of the

1 Note into shares of common stock of the Company. Upon  
2 conversion of the Note, a total of 10,000,000 shares of the  
Company's common stock will be issued to Roen Ventures.

3 The Company has determined that the conversion feature is  
4 considered a beneficial conversion feature and determined its  
5 value on July 25, 2013, the date of the amendment, for  
6 increasing the line of credit to \$6,000,000, to be \$637,400.  
7 The Company calculated the beneficial conversion feature at  
8 its intrinsic value. Accordingly, the beneficial conversion  
9 feature has been accounted for as a discount to the Note and  
will be amortized using the effective interest method as an  
expense over the remaining life of the Note. The  
amortization of debt discounts for the three and nine months  
ended September 30, 2013 is \$67,095.

10 126. The Company's Financial statement restatements were described as  
11 follows:

12 a) Amortization expense as reported in the financial  
13 statements for the three and nine months ended September 30,  
14 2013, in the amount of \$529,230 and \$1,480,722,  
15 respectively, was in error. Based on the restated value of  
16 assets purchased from PhytoSphere, intangible assets totaled  
17 \$4,110,000. Restated amortization on those assets for the  
18 three months ended September 30, 2013 is \$205,500,  
representing a decrease in amortization expense and operating  
expenses of \$323,730 for the period. Amortization expense  
for the nine months ended September 30, 2013 was \$548,000  
representing a decrease in amortization expense and operating  
expenses of \$932,722 for the period.

19 b) Intangible assets as presented in the financial  
20 statements as of September 30, 2013 were in error. The  
21 financial statements previously reported \$4,466,666 in net  
22 intangible assets acquired in connection with the PhytoSphere  
23 Transaction. As restated, the amount of net intangible assets  
24 is \$3,562,000. The decrease of \$904,666 is a result of a  
25 difference of \$1,837,387 between \$5,947,387 in intangible  
assets originally recorded and \$4,110,000 in intangible assets  
determined by the valuation of assets purchased from  
PhytoSphere. This was partially offset by a difference of  
\$932,722 of accumulated amortization recorded as of  
September 30, 2013.

26 c) Goodwill reported in the financial statements at  
27 September 30, 2013, was understated by \$1,855,512. The  
28 goodwill as originally reported was \$26,998,125, previously  
determined based on a transaction amount of \$35,000,000 for  
the PhytoSphere Transaction, which was offset by an

1 impairment to goodwill of \$26,998,125 for a net carrying  
2 value of \$0. The valuation of acquired assets, discussed  
3 below, set a value of goodwill of \$1,855,512, with no  
impairment being recorded.

4 d) The amount previously reported as due to PhytoSphere  
5 pursuant to the PhytoSphere Agreement at September 30,  
6 2013 was reported as \$6,499,998. This was calculated based  
7 on a Transaction amount of \$35,000,000 and a set per share  
8 price between \$4.50 and \$6.00 under the PhytoSphere  
9 Agreement. In reviewing the price that the Company's  
10 common stock was trading at during the year, subsequent to  
11 September 30, 2013, management determined that using a per  
12 share price to value the Transaction may not represent a true  
13 measure of the fair market value of the Transaction and that  
14 obtaining a valuation of the assets purchased from  
15 PhytoSphere would be required in order to determine the fair  
16 market value of the business acquired. Accordingly,  
17 management determined that the valuation of \$8,020,000  
18 represented a more reliable measure of the fair value of the  
19 Transaction. As a result of that valuation, the per share price  
20 for shares of common stock issued to PhytoSphere was  
21 adjusted to \$1.21 to reflect the revised value of the  
22 Transaction. Accordingly, the amount recorded upon  
23 issuance of the shares of common stock to PhytoSphere and  
24 the total amount due to PhytoSphere was adjusted to reflect  
25 the value of the Transaction. As a result, the amount due to  
26 PhytoSphere was revised to \$1,314,878 and the value of  
27 common stock reflected for the shares of common stock  
28 issued as payment in the Transaction was \$5,755,122. ***As a  
result, the amount shown as due to PhytoSphere at  
September 30, 2013 was overstated by \$5,185,120 and the  
amount recorded for the shares of common stock issued to  
PhytoSphere through September 30, 2013 was overstated by  
\$21,794,880. (emphasis added).***

20 e) General and administrative expenses originally  
21 reported for the three and nine months ended September 30,  
22 2013 were overstated by \$461,226 and \$1,070,218,  
23 respectively. Amortization expense was overstated by  
24 \$323,730 for the three months ended September 30, 2013 and  
25 \$932,722 for the nine months ended September 30, 2013 due  
26 to a difference in the value of intangible assets originally  
27 recorded of \$5,947,387 and \$4,110,000, as determined based  
28 on the valuation of assets acquired by PhytoSphere discussed  
above. In addition, \$137,496 in research and development  
expenses were originally included in general and  
administrative expenses for both the three and nine months  
ended September 30, 2013 which have been reclassified as  
research and development expenses.

///

f) For the three and nine months ended September 30, 2013, the Company originally reported impairment to goodwill in the amount of \$26,998,125, which represented the entire amount of goodwill originally reported. As determined in the valuation of assets purchased from PhytoSphere discussed above, goodwill was determined to be \$1,855,512. The Company has determined that there should no impairment to goodwill, as adjusted, at September 30, 2013.

127. On April 3, 2014, CannaVest filed a Form 8-K, which disclosed that CannaVest's Forms 10-Q for the quarterly periods ended March 31, 2013, June 30, 2013, and September 30, 2014 would be restated to correct material deficiencies in these filings. In response to this disclosure, the price of CannaVest's stock dropped by \$7.30 per share.

128. On April 14, 2014, CannaVest filed a Form 8-K, which disclosed material misstatements in the figures presented in the financial statements which appeared in the above referenced initially filed Form 10-Q as follows:

On March 28, 2014, management of CannaVest Corp. (the "Company") concluded that the previously issued financial statements contained in the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013, June 30, 2013 and September 30, 2013 (the "Forms 10-Q") should no longer be relied upon because of errors related to the purchase price and the purchase price allocation for the assets acquired (the "Assets") related to PhytoSphere Systems, LLC ("PhytoSphere").

Specifically, management determined that the purchase price and the allocation of the purchase price as previously disclosed in the Forms 10-Q were not in accordance with accounting principals generally accepted in the United States ("GAAP"). The Company initially reported the acquisition of the Assets (the "Transaction") based on the negotiated purchase price of \$35 million which had a floor and ceiling locked on the value of the Company's common stock to be issued of between \$4.50 and \$6.00, as reflected in the Agreement for Purchase and Sale of Assets entered into by the Company and PhytoSphere. In reviewing the price that the Company's common stock was trading at during the year, management determined that although the negotiated price of the Transaction was \$35 million, that price may not represent the fair market value of the Assets acquired. As a result, management determined that obtaining a valuation of the Assets would be required in order to determine the fair value



1 of the Assets acquired. The valuation resulted in a fair value  
2 of approximately \$8 million.

3 Accordingly, management concluded that the valuation of \$8  
4 million for the Assets to be the most reliable measure of fair  
5 value of the Transaction for the Company. In addition,  
6 management determined that sales and cost of sales for the  
7 quarter ended March 31, 2013 were incorrect.

8 The Company has determined that it is necessary to correct  
9 such errors for the adjusted value of the Transaction and the  
10 shares of the Company's common stock issued and to adjust  
11 the asset allocation methodology for the Transaction as  
12 originally determined by management. As a result, the  
13 carrying amount of intangible assets and goodwill in the  
14 Company's condensed consolidated balance sheets filed with  
15 the Forms 10-Q will be reduced. Further, the resulting  
16 amortization cost recorded to the condensed consolidated  
17 statements of operations filed with the Forms 10-Q will be  
18 decreased by \$241,167, \$367,825 and \$323,730 for the  
19 quarters ended March 31, 2013, June 30, 2013 and September  
20 30, 2013, respectively. The restated amortization cost will be  
21 \$137,000, \$205,500 and \$205,500 for the quarters ended  
22 March 31, 2013, June 30, 2013 and September 30, 2013,  
23 respectively, resulting in \$548,000 total amortization expense  
24 as opposed to \$1,480,722 as originally reported.

25 Goodwill was reported as \$26,998,125 at March 31, 2013 and  
26 June 30, 2013, in the condensed consolidated balance sheets  
27 with an impairment of goodwill in the amount of \$26,998,125  
28 recorded in the condensed consolidated statement of  
operations for the quarter ended September 30, 2013.  
Goodwill will be restated as \$1,855,512 and there will be no  
impairment to goodwill recorded. Therefore, as restated,  
goodwill will be reported as \$1,855,512 on the condensed  
consolidated balance sheets as of March 31, 2013, June 30,  
2013 and September 30, 2013. In addition to the adjustments  
to the Transaction accounting, sales and cost of sales for the  
quarter ended March 31, 2013 were misstated. Sales  
originally were reported as \$1,275,000 will be restated to  
\$1,082,375, representing a reduction of \$192,625. This  
amount is being restated to correct an error whereby the sales  
value of good transferred for manufacturing was included in  
sales. Cost of goods sold were reported as \$501,500 for the  
quarter ended March 31, 2013, and will be restated to  
\$205,450, representing a reduction of \$296,050. The  
restatement to cost of goods sold is to correct an error related  
to the cost of inventory sent for manufacturing in the amount  
of \$39,865 being included in cost of goods sold and \$256,185  
relating to errors related to calculating ending inventory.  
Sales and cost of sales for the quarters ended June 30, 2013  
and September 30, 2013 will not be restated.

1 As originally reported in the Forms 10-Q, operating expenses  
2 were \$435,559, \$1,131,660 and \$27,998,112 for the three (3)-  
3 month periods ended March 31, 2013, June 30, 2013, and  
4 September 30, 2013, respectively. Operating expenses will  
5 be restated to \$194,342, \$419,002 and \$791,369 for the three  
6 (3)-month periods ended March 31, 2013, June 30, 2013 and  
September 30, 2013, respectively, for a total of \$1,404,763  
for the nine months ended September 30, 2013, representing a  
total reduction of operating expenses of \$27,930,846 from  
what was originally reported.

7 129. In response to this April 14, 2014 disclosure, the price of CannaVest's stock  
8 dropped by \$4.49 per share.

9 130. The financial position and results of operations which were reported in the  
10 three above referenced Form 10-Q's, as originally filed with the SEC, were materially  
11 misstated through improper accounting for goodwill, sales, cost of goods sold, and  
12 accounts receivable. In addition, the financial position and results of operations were  
13 materially false and misleading because related party transactions (including 100% of  
14 CannaVest's reported revenue and \$26,998,125 of CannaVest's fictitious goodwill),  
15 comprised virtually all of CannaVest's transactions which were material facts concealed  
16 from the investing public.

17 131. Generally Accepted Accounting Principles ("GAAP") notes (ASC 850) that  
18 the reliability of financial information involves assurance that accounting measures  
19 represent what they purport to represent. It further notes that, without disclosure to the  
20 contrary, there is a general presumption that transactions reflected in financial  
21 statements have been consummated on an arms-length basis between independent  
22 parties. However, that presumption is not justified when related party transactions exist  
23 because the requisite conditions of competitive, free-market dealings may not exist.  
24 Because it is possible for related party transactions to be arranged to obtain certain  
25 results desired by the related parties, the resulting accounting measures may not  
26 represent what they usually would be expected to represent. Because of this GAAP  
27 states that information about transactions with related parties is useful to users of  
28 financial statements in attempting to compare an enterprise's results of operations and

1 financial position with those of prior periods and with those of other enterprises. It  
2 helps them to detect and explain possible differences. Therefore, information about  
3 transactions with related parties that would make a difference in decision making should  
4 be disclosed so that users of the financial statements can evaluate their significance.

5 132. In addition, GAAP mandates that “financial statements shall include  
6 disclosures of material related party transactions” and that disclosures “shall” include:  
7 “A description of the transactions, including transactions in which no amounts or  
8 nominal amounts were ascribed, for each of the periods for which income statements are  
9 presented, and such other information deemed necessary to an understanding of the  
10 effects of the transactions on the financial statements.”

11 133. As part of Accounting Series Release No. 280, General Revisions of  
12 Regulation S-X, the Securities and Exchange Commission integrated the GAAP required  
13 disclosure requirements pertaining to related party transactions into Regulation S-X.

14 134. The above referenced CannaVest financial statements, which were  
15 disseminated to the investing public, failed to comply with the foregoing GAAP. In this  
16 regard, although material (as the term is defined in SEC Staff Accounting Bulletin No.  
17 99 - “Materiality”) amounts of related party transactions occurred, none of the above  
18 specified initial SEC filings or the financial statements contained therein disclosed  
19 information which was necessary to an understanding of the effects of the transactions  
20 on the financial statements.

21 135. In disregard of their fiduciary responsibility to shareholders, the Individual  
22 Defendants flagrantly violated the provisions of CannaVest’s Code Of Business Conduct  
23 which provide that:

24 (a) “Senior Financial Officers will exhibit and promote high standards of  
25 honest and ethical conduct”

26 (b) “Senior Financial Officers . . . will prohibit and eliminate the  
27 appearance or occurrence of conflicts between what is in the best interest of the

28 ///

1 Company and what could result in material personal gain for a member of the  
2 Company's financial organization, including Senior Financial Officers."

3 (c) "Senior Financial Officers will establish and manage the Company's  
4 transaction and reporting systems and procedures to ensure that:

5 • Business transactions are properly authorized and recorded on  
6 the Company's books and records in accordance with GAAP and  
7 established company financial policies.

8 • Periodic financial communications and other documents  
9 reports filed with, or submitted to, the U.S. Securities and Exchange  
10 Commission, and other public communications by the Company, are  
11 delivered in a manner that facilitates full, fair, accurate, timely and  
12 understandable disclosure so that readers and users can reasonably quickly  
13 and accurately determine their significance and consequences."

14 136. On February 15, 2014, CannaVest issued a press release touting its  
15 subsidiary PhytoSphere's increased production capabilities. The release entitled  
16 "PhytoSPHERE Systems, a CannaVest Corp. Subsidiary, Significantly Increased Hemp  
17 Oil Production for 2014, PhytoSPHERE Systems Increases Production by Over 1500%  
18 From 2013" provided in part:

19 LAS VEGAS, Feb. 5, 2014 (GLOBE NEWSWIRE) -- CannaVest Corp.  
20 (OTC:CANV), the world's leading cannabis-based investment company  
21 spearheading the development of cannabidiol (CBD)-rich hemp oils and  
22 other industry-related products and services, is pleased to announce that its  
23 subsidiary, PhytoSPHERE Systems, has increased its industrial hemp oil  
24 production over 1500% for the 2014 season. The company has also  
increased its production capabilities to concentrate these hemp oils into  
high value CBD-rich hemp oils, from the rate of several kilograms per  
batch production cycle in 2013 to over twenty tons per batch production  
cycle for 2014.

25 "With this drastic increase in our production and our refining capabilities,  
26 we will continue to be able to significantly decrease our production costs  
27 and increase our operating margins," stated Michael Mona Jr., President  
28 and Chairman of the Board for CannaVest Corp. "The market interest in  
CBD-rich hemp oils has significantly increased over the past year, due in  
large part to the many remarkable documentaries and publicity surrounding  
the positive benefits of cannabis, specifically natural cannabidiol. We are at

1 the forefront of hemp oil production today, and as the legal markets  
 2 continue to expand we are one of the few companies actually able to  
 capture and benefit from that increased demand."

3 137. The above statements in each of the 2013 Forms 10-Q and in the June 20,  
 4 2013 and February 15, 2014 press releases were materially false and misleading when  
 5 made because they misrepresented and failed to disclose the following adverse facts,  
 6 which were known to Defendants or recklessly disregarded by them:

7 (a) that the price of CannaVest's stock was artificially inflated as a result of  
 8 Defendants' manipulation;

9 (b) that the Company misrepresented the value of the PhytoSphere transaction;

10 (c) that the Company omitted the related party source of, and inflated, its sales  
 11 and revenues;

12 (d) that the Company misrepresented, and overstated, the amount of its  
 13 goodwill and intangible assets;

14 (e) that the Company misrepresented that CannaVest's financial statements  
 15 complied with GAAP when they did not; and

16 (f) that the Company materially omitted that CannaVest's revenues in first,  
 17 second and third quarters 2013 were generated from sales to Medical Marijuana, Inc., a  
 18 related party.

### 19 **BREACH OF FIDUCIARY DUTY IS REVEALED**

20 138. On March 6, 2014, CannaVest issued a press release entitled "CannaVest  
 21 Corp. Clarifies Relationships With General Hemp and Kannaway," both companies  
 22 controlled by Titus:

23 SAN DIEGO, March 6, 2014 (GLOBE NEWSWIRE) -- CannaVest Corp.  
 24 (OTC:CANV), the world's leading hemp-based investment company  
 25 spearheading the development of cannabidiol (CBD)-rich hemp oils and  
 other hemp industry-related products and services, would like to clarify its  
 relationship with both General Hemp, LLC and Kannaway, LLC.

26 Kannaway, LLC is marketed as a hemp lifestyle company with a focus on  
 27 nutritional wellness whose products contain CBD rich hemp oil. Kannaway  
 28 was founded in 2014 and is a wholly-owned subsidiary of General Hemp,  
 LLC.



1 The sole owner of General Hemp is Stuart Titus. Mr. Titus formerly was a  
 2 consultant and advisor to CannaVest, and currently owns less than 2% of  
 3 the outstanding shares of CannaVest. Mr. Titus no longer has any  
 4 affiliation with CannaVest, and no person affiliated with General Hemp is  
 employed by CannaVest in any capacity. The sole relationship between  
 CannaVest and General Hemp is Mr. Titus' ownership of CannaVest stock.

5 Products for Kannaway's business will exclusively be supplied by  
 6 HempMedsPX, LLC, which is a distributor of federally legal, hemp-based  
 7 CBD products and a wholly-owned subsidiary of Medical Marijuana, Inc.  
 8 (MJNA). HempMeds is the master distributor and marketing company for  
 CannaVest. As a result, CannaVest's product offerings will be available to  
 Kannaway for its business. CannaVest has no ownership or other interest in  
 Kannaway, and CannaVest solely will act as a supplier of products to  
 Kannaway.

9 "We have received numerous telephone calls from the public leading us to  
 10 believe there is general confusion relating to our relationship to  
 11 Kannaway," says Michael Mona III, Vice President of Operations for  
 12 CannaVest Corp. "Our business focus continues to be on being the world's  
 13 leading bulk CBD-rich hemp oil supplier, and we intend to continue selling  
 our product offerings to HempMeds, which ultimately will allow  
 Kannaway to launch and sustain its business. We are excited that our  
 products will be available to consumers through the Kannaway model."

14 139. In reaction to this news, CannaVest's stock fell dramatically, closing at  
 15 \$85.01 on March 10, 2014 (March 8 and 9 fell on the weekend) from its closing price of  
 16 \$121 per share on March 6, 2014.

17 140. On March 14, 2014, Baystreet.ca Media Group Corp., an entity that follows  
 18 marijuana stocks, reported on the dramatic drop in the price of CannaVest common  
 19 stock:

20 In other news, CannaVest Corp. (OTCQB: CANV) share volume soared  
 21 Mar. 13, with 12,856 changing hands, significantly higher than its three-  
 month average of 9,934 shares.

22 The surge in the Las Vegas-based developer of hemp-based nutritional  
 23 products share volume and the downward trend of its stock's price appears  
 24 to be tied to a Mar. 6 clarification of CannaVest's relationship with both  
 General Hemp LLC and Kannaway LLC.

#### 25 Clearing Up Confusion

26 Here's an excerpt from the clarification:

27 Kannaway, LLC is marketed as a hemp lifestyle company with a focus on  
 28 nutritional wellness whose products contain CBD rich hemp oil. Kannaway  
 was founded in 2014 and is a wholly-owned subsidiary of General Hemp,  
 LLC.

1 The sole owner of General Hemp is Stuart Titus. Mr. Titus formerly was a  
 2 consultant and advisor to CannaVest, and currently owns less than 2% of  
 3 the outstanding shares of CannaVest. Mr. Titus no longer has any  
 4 affiliation with CannaVest, and no person affiliated with General Hemp is  
 employed by CannaVest in any capacity. The sole relationship between  
 CannaVest and General Hemp is Mr. Titus' ownership of CannaVest stock.

5 Products for Kannaway's business will exclusively be supplied by  
 6 HempMedsPX, LLC, which is a distributor of federally legal, hemp-based  
 7 CBD products and a wholly-owned subsidiary of Medical Marijuana, Inc.  
 8 (MJNA). HempMeds is the master distributor and marketing company for  
 CannaVest. As a result, CannaVest's product offerings will be available to  
 Kannaway for its business. CannaVest has no ownership or other interest in  
 Kannaway, and CannaVest solely will act as a supplier of products to  
 Kannaway.

9 "We have received numerous telephone calls from the public leading us to  
 10 believe there is general confusion relating to our relationship to  
 11 Kannaway," says Michael Mona III, vice president of operations for  
 CannaVest Corp.

12 On Mar. 13, CANV's share price closed at \$83.00, down \$7.00 from its  
 13 close of \$90.00 cents the previous day.

14 141. On March 24, 2014, Gannet News Service published an article commenting  
 15 on the decline in the price of CannaVest's stock:

16 Wall Street seems to be losing its appetite for pot.

17 Marijuana stocks were high fliers -- so to speak -- after Colorado and  
 18 Washington legalized recreational use and several other states announced  
 19 they may legalize sales or decriminalize possession. Shares in about 20  
 marijuana-related companies soared, with some gaining more than  
 700(PERCENT) off 52-week lows.

20 But marijuana mania is fading as investors realize there's more smoke than  
 21 fire at many companies, which show "pot-tential" but little actual revenue.  
 22 CannaVest, which specializes in industrial hemp production, had climbed  
 to \$201 a share last month. It closed up 11(PERCENT) to \$68.10 Friday,  
 but it's lost nearly two-thirds of its market value.

23 142. On March 26, 2014, CannaVest filed with the SEC a Form 8-K disclosing  
 24 the following:

25 Item 5.02 Departure of Directors or Certain Officers; Election of Directors;  
 26 Appointment of Certain Officers; Compensatory Arrangements of Certain  
 Officers.

27 On March 21, 2014, Karen Epstein resigned as the Treasurer and Secretary  
 28 of CannaVEST Corporation (the "Company"). Her resignation did not  
 result from any disagreement with the Company.

On March 21, 2014, the Board of Directors of the Company appointed Allen Shubat, age 59, as the Treasurer and Secretary of the Company. Mr. Shubat is experienced in streamlining operations and improving internal control over financial reporting, with an emphasis in corporate consolidations in the U.S. and globally. Mr. Shubat is a 20-plus year veteran working with biofuel, telecommunications, real estate investment, development, and property management firms. From 2012 to 2014, Mr. Shubat was Controller for SG Biofuels, Inc., where he coordinated GAAP consolidated financial statements and investments in three countries. From 2008 to 2011, Mr. Shubat was Controller for PacVentures where he oversaw accounting for 40+ business units in 5 states and 3 satellite offices, providing consolidated financial statements, tax and audit work papers. Mr. Shubat also previously worked for TelMex USA, LLC, a Carlos Slim subsidiary. There he tracked a \$200MM investment portfolio in the U.S. and in South American countries. Mr. Shubat's extensive business and accounting background makes him a valuable addition to the Company.

143. On March 27, 2014, the price of CannaVest's stock closed at \$47.50 per share, down from of it closing price of \$60 on March 25, 2014.

144. On April 3, 2014, CannaVest filed a Form 8-K with the SEC announcing that it had misreported its financial position and misreported its results of operations in its financial statements in the Company's Forms 10-Q for the quarters ended March 31, 2013, June 30, 2013, and September 30, 2013, and as such, the 2013 First, Second, and Third Quarter Forms 10-Q, including the financial statements contained therein, could no longer be relied upon. More specifically, the press release stated, in part:

The Company has determined that it is necessary to correct such errors because the allocation methodology used by management, resulting carrying amount of intangible assets and goodwill, and the resulting amortization cost and goodwill impairment were not in accordance with GAAP. Further, sales and cost of sales for the quarter ended March 31, 2013 were misstated. ***The Company will restate the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013, June 30, 2013 and September 30, 2013.***

(Emphasis added).

145. In reaction to this adverse disclosure, on April 3, 2014 shares of the Company's stock fell \$7.30 per share, or more than 20%, to close at \$25.30 per share.

146. On April 3, 2014, the *Street.com* reported on the stock drop in an article entitled "Why CannaVEST (CANV) Stock Is Down Today: CannaVEST (CANV) stock

1 is down Thursday after filing a report showing that it made material errors in its 10-Qs  
2 for the first three quarters of 2013”:

3 NEW YORK (TheStreet) -- CannaVEST Corp stock is down 20.46% to  
4 \$25.50 Thursday after filing a report showing that it made material errors  
in its 10-Qs for the first three quarters of 2013.

5 The report states the company "concluded that the previously issued  
6 financial statements contained in the company's quarterly reports on Form  
7 10-Q for the quarters ended March 31, 2013, June 30, 2013 and September  
8 30, 2013 should no longer be relied upon because of errors related to the  
purchase price and the purchase price allocation for the assets acquired  
related to the PhytoSPHERE Systems."

9 The company determined the purchase price disclosed on the 10-Q forms  
10 "were not in accordance with accounting principles generally accepted in  
the U. S."

11 CannaVest, a business which develops and sells products containing hemp,  
12 concluded their sales and cost of sales for March 31, 2013 were incorrect.

13 147. On April 14, 2014, CannaVest filed an Amended Form 8-K, stating in  
14 greater detail the circumstances of Defendants' misrepresentations. The Amended Form  
15 8-K disclosed:

16 **Non-Reliance on Previously Issued Financial Statements or a Related**  
17 **Audit Report or Completed Interim Review**

18 On March 28, 2014, management of CannaVEST Corp. (the "Company")  
19 concluded that the previously issued financial statements contained in the  
20 Company's Quarterly Reports on Form 10-Q for the quarters ended March  
21 31, 2013, June 30, 2013 and September 30, 2013 (the "Forms 10-Q")  
22 should no longer be relied upon because of errors related to the purchase  
23 price and the purchase price allocation for the assets acquired (the Assets")  
24 related to PhytoSPHERE Systems, LLC ("PhytoSPHERE"). Specifically,  
25 management determined that the purchase price and the allocation of the  
26 purchase price as previously disclosed in the Forms 10-Q were not in  
27 accordance with accounting principals generally accepted in the United  
28 States ("GAAP"). The Company initially reported the acquisition of the  
Assets (the "Transaction") based on the negotiated purchase price of \$35  
million which had a floor and ceiling locked on the value of the Company's  
common stock to be issued of between \$4.50 and \$6.00, as reflected in the  
Agreement for Purchase and Sale of Assets entered into by the Company  
and PhytoSPHERE. In reviewing the price that the Company's common  
stock was trading at during the year, management determined that although  
the negotiated price of the Transaction was \$35 million, that price may not  
represent the fair market value of the Assets acquired. As a result,  
management determined that obtaining a valuation of the Assets would be  
required in order to determine the fair value of the Assets acquired. The

1 valuation resulted in a fair value of approximately \$8 million. Accordingly,  
2 management concluded that the valuation of \$8 million for the Assets to be  
3 the most reliable measure of fair value of the Transaction for the Company.  
In addition, management determined that sales and cost of sales for the  
quarter ended March 31, 2013 were incorrect.

4 The Company has determined that it is necessary to correct such errors for  
5 the adjusted value of the Transaction and the shares of the Company's  
6 common stock issued and to adjust the asset allocation methodology for the  
7 Transaction as originally determined by management. As a result, the  
8 carrying amount of intangible assets and goodwill in the Company's  
9 condensed consolidated balance sheets filed with the Forms 10-Q will be  
10 reduced. Further, the resulting amortization cost recorded to the condensed  
11 consolidated statements of operations filed with the Forms 10-Q will be  
decreased by \$241,167, \$367,825 and \$323,730 for the quarters ended  
March 31, 2013, June 30, 2013 and September 30, 2013, respectively. The  
restated amortization cost will be \$137,000, \$205,500 and \$205,500 for the  
quarters ended March 31, 2013, June 30, 2013 and September 30, 2013,  
respectively, resulting in \$548,000 total amortization expense as opposed  
to \$1,480,722 as originally reported.

12 Goodwill was reported as \$26,998,125 at March 31, 2013 and June 30,  
13 2013, in the condensed consolidated balance sheets with an impairment of  
14 goodwill in the amount of \$26,998,125 recorded in the condensed  
15 consolidated statement of operations for the quarter ended September 30,  
16 2013. Goodwill will be restated as \$1,855,512 and there will be no  
impairment to goodwill recorded. Therefore, as restated, goodwill will be  
reported as \$1,855,512 on the condensed consolidated balance sheets as of  
March 31, 2013, June 30, 2013 and September 30, 2013.

17 In addition to the adjustments to the Transaction accounting, sales and cost  
18 of sales for the quarter ended March 31, 2013 were misstated. Sales  
19 originally were reported as \$1,275,000 will be restated to \$1,082,375,  
20 representing a reduction of \$192,625. This amount is being restated to  
21 correct an error whereby the sales value of good transferred for  
22 manufacturing was included in sales. Cost of goods sold were reported as  
23 \$501,500 for the quarter ended March 31, 2013, and will be restated to  
\$205,450, representing a reduction of \$296,050. The restatement to cost of  
goods sold is to correct an error related to the cost of inventory sent for  
manufacturing in the amount of \$39,865 being included in cost of goods  
sold and \$256,185 relating to errors related to calculating ending inventory.  
Sales and cost of sales for the quarters ended June 30, 2013 and September  
30, 2013 will not be restated.

24 As originally reported in the Forms 10-Q, operating expenses were  
25 \$435,559, \$1,131,660 and \$27,998,112 for the three (3)-month periods  
26 ended March 31, 2013, June 30, 2013, and September 30, 2013,  
27 respectively. Operating expenses will be restated to \$194,342, \$419,002  
28 and \$791,369 for the three (3)-month periods ended March 31, 2013, June  
30, 2013 and September 30, 2013, respectively, for a total of \$1,404,763  
for the nine months ended September 30, 2013, representing a total  
reduction of operating expenses of \$27,930,846 from what was originally  
reported.



1 The Company will restate the financial statements contained in the Forms  
2 10-Q and file these restatements prior to filing its Quarterly Report on  
3 Form 10-Q for the quarter ended March 31, 2014, which is due to be filed  
by May 15, 2014.

4 The decision to restate the disclosure and the underlying issues discussed  
5 above were discussed by the Company's Chief Executive Officer with the  
6 Company's independent registered public accounting firm. The decision to  
7 restate the disclosure was made after discovery of such errors relating to  
8 the Company's disclosures and the aforementioned discussions were held  
9 with the Company's independent registered public accounting firm prior to  
10 the filing on March 28, 2014, of the Company's Annual Report on Form  
10-K for the fiscal year ended December 31, 2013 (the "Form 10-K"). The  
Form 10-K, Item 9A "Controls and Procedures", disclosed that  
management was aware of a deficiency related to the improper  
determination of the purchase price allocation for the Assets, and stated  
that the Forms 10-Q could not be relied upon as a result of including  
materially incorrect information.

11 148. After this disclosure, the price of shares of the Company's stock fell again,  
12 this time by \$4.49 per share, or 19.5%, to close at \$18.51 per share.

13 149. On April 24, 2014, CannaVest filed its restated financial statements for the  
14 first, second, and third quarters of 2013 with the SEC on three separate Forms 10-Q/A.

15 150. Finally, on April 25, 2014, the Company announced that it had filed  
16 restated financial statement statements for the quarters ended March 31, 2013, June 30  
17 2013 and September 30, 2013. Specifically, CannaVest stated in part as follows:

18 The purpose of the restatement is to address the following items, which the  
19 Company has identified as requiring correction:

#### 20 **Recognition of Revenue**

21 The financial statements for the quarter ended March 31, 2013 reflected  
22 revenue and accounts receivable of \$192,625 and cost of goods sold of  
23 \$296,050 that should not have been recognized. Revenues and accounts  
24 receivable in the amount of \$192,625 related to the sales value of inventory  
25 that was transferred to a manufacturer for inclusion in finished goods and  
26 an error in calculating the price of the ending inventory as of the end of the  
27 period. The amount of \$39,865 was related to the cost of inventory sent for  
28 manufacturing being included in cost of goods sold and \$256,185 related to  
errors related to calculating ending inventory.

#### 26 **Prepaid Inventory**

27 A portion of the prepaid inventory purchased as part of the Company's  
28 acquisition of assets from PhytoSPHERE Systems, LLC

1 (“PhytoSPHERE”) was not included in the financial statements as of  
 2 March 31, 2013. The resulting understatement of prepaid inventory was  
 \$1,260,510.

### 3 **Inventory**

4 Inventory as originally reported in the financial statements ended March  
 5 31, 2013, was understated by \$125,027. This was a result of an  
 6 overstatement of cost of goods sold in the amount of \$296,050, offset by an  
 adjustment for the value of inventory acquired from PhytoSPHERE in the  
 amount of \$171,023.

### 7 **Value of Intangible Assets**

8 Intangible assets as presented in the financial statements as of March 31,  
 9 June 30 and September 30, 2013 were in error. As determined by the  
 valuation of the assets purchased from PhytoSPHERE, intangible assets  
 10 totaled \$4,110,000. Net intangible assets previously reported at March 31,  
 2013 were \$33,656,833, which represents an overstatement of  
 11 \$29,683,833. Net intangible assets previously reported at June 30, 2013  
 were \$4,995,895, which represents an overstatement of \$1,228,395 and net  
 12 intangible assets previously reported at September 30, 2013 were  
 \$4,466,666, resulting in an overstatement of \$904,666.

### 13 **Goodwill**

14 As determined by the valuation of assets purchased from PhytoSPHERE,  
 15 the value of goodwill was \$1,855,512. The Company did not report any  
 goodwill as of March 31, 2013, which resulted in an understatement of  
 16 \$1,855,512. At June 30, 2013, the Company reported goodwill in the  
 amount of \$26,998,125, resulting in an overstatement of goodwill of  
 17 \$25,142,613. At September 30, 2013, the Company recorded impairment  
 of goodwill in the amount of \$26,998,125, resulting in a carrying value of  
 18 \$0. This resulted in an understatement of goodwill in the amount of  
 \$1,855,512.

### 19 **Amount Due to PhytoSPHERE Systems; Additional Paid in Capital**

20 The amount due to PhytoSPHERE was originally reported as \$35 million,  
 21 pursuant to the terms of the agreement. Shares to be issued as payment  
 under the transaction were at a set per share price between \$4.50 and \$6.00.  
 22 Subsequently, a valuation determined the price of the transaction to be  
 \$8,020,000, which resulted in a per share price of \$1.21 per share based on  
 23 the valuation obtained. Therefore, for the Company’s financial reports, the  
 amount due to PhytoSPHERE was adjusted to \$8,020,000 and the shares  
 24 issued as payment pursuant to the transaction were adjusted to \$1.21 per  
 share. This resulted in an overstatement of the amount due PhytoSPHERE  
 25 and paid-in capital of \$23,572,360 and \$3,407,640, respectively at March  
 31, 2013; \$18,786,094 and \$8,193,906, respectively at June 30, 2013; and  
 26 \$5,185,120 and \$21,794,880, respectively at September 30, 2013.

27  
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## **Amortization Expense**

The restatement of the value of intangible assets has resulted in the overstatement of amortization expense for the quarters ended March 31, June 30 and September 30, 2013 in the amount of \$241,167, \$367,825 and \$323,730, respectively. The overstatement of amortization expense was \$608,992 for the six months ended June 30, 2013 and \$932,722 for the nine months ended September 30, 2013.

## **Impairment of Goodwill**

The Company originally reported \$26,998,125 as an impairment to goodwill for the quarter ended September 30, 2013. The Company did not record an impairment to goodwill in its restated financial statements. This resulted in an overstatement of operating expenses of \$26,998,125 for the three and nine months ended September 30, 2013.

## **Research & Development Expenses**

For the quarter ended September 30, 2013, the Company included \$137,496 in research and development expenses as a part of general and administrative expenses. This amount has been reported as research and development expenses in the restated financial statements.

The cumulative impact on the Company's financial statements are described in more detail below.

151. On or about November 24, 2014, the Company received a subpoena from the SEC requesting certain documents and information.

152. In the related securities fraud action, the court in the Southern District of New York ("SDNY Court") issued a written Memorandum Opinion and Order on March 31, 2018 which denied in the main the motion to dismiss filed in that action by Defendants CannaVest and Mona.

153. In addition, the SEC brought an action against Defendants CannaVest and Mona in the District of Nevada, Civil Action No. 2:17-cv-01681 ("SEC Action").

154. The SEC Action has been settled in principal though the SEC commissioners have not finished their review of the proposed settlement.

## **DERIVATIVE AND DEMAND FUTILITY ALLEGATIONS**

155. Plaintiff brings this action derivatively in the right and for the benefit of the Company to redress injuries suffered and to be suffered as a direct and proximate result

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1 of the breaches of fiduciary duties and gross mismanagement by the Individual  
2 Defendants.

3 156. Plaintiff will adequately and fairly represent the interests of the Company  
4 and its shareholders in enforcing and prosecuting its rights and has retained counsel  
5 competent and experienced in derivative litigation.

6 157. Plaintiff is a current owner of the Company stock and has continuously  
7 been an owner of Company stock from February 24, 2014 to the present, during all  
8 times relevant to the Individual Defendants' wrongful course of conduct alleged herein.  
9 Plaintiff understands her obligation to hold stock throughout the duration of this action  
10 and is prepared to do so.

11 158. During the illegal and wrongful course of conduct at the Company and  
12 through the present, the Board consisted of the Individual Defendants. Because of the  
13 facts set forth throughout this Complaint, demand on the Company Board to institute  
14 this action is not necessary because such a demand would have been a futile and useless  
15 act.

16 159. The Company Board is currently comprised of three (3) members –  
17 Defendants Mona, MacKay, and Raskin. Thus, Plaintiff is required to show that a  
18 majority of the Demand Defendants, *i.e.*, two (2), cannot exercise independent objective  
19 judgment about whether to bring this action or whether to vigorously prosecute this  
20 action.

21 160. Defendants Mona and Mackay face a substantial likelihood of liability in  
22 this action because they caused the Company to issue false and misleading statements  
23 concerning its financial results and future prospects. Because of their advisory,  
24 executive, managerial, and directorial positions with the Company, Defendants Mona  
25 and Mackay had knowledge of material non-public information regarding the Company  
26 and was directly involved in the operations of the Company at the highest levels.

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28 ///

1           161. Defendants Mona and Mackay either knew or should have known of the  
2 false and misleading statements that were issued on the Company's behalf and took no  
3 steps in a good faith effort to prevent or remedy that situation.

4           162. The Individual Defendants (or at the very least a majority of them) cannot  
5 exercise independent objective judgment about whether to bring this action or whether  
6 to vigorously prosecute this action. For the reasons that follow, and for reasons detailed  
7 elsewhere in this Complaint, Plaintiff has not made (and should be excused from  
8 making) a pre-filing demand on the Board to initiate this action because making a  
9 demand would be a futile and useless act.

10           163. Defendants Mona and Mackay approved and/or permitted the wrongs  
11 alleged herein to have occurred and participated in efforts to conceal or disguise those  
12 wrongs from the Company's stockholders or recklessly and/or with gross negligence  
13 disregarded the wrongs complained of herein and are therefore not disinterested parties.

14           164. Defendants Mona and Mackay authorized and/or permitted the false  
15 statements to be disseminated directly to the public and made available and distributed  
16 to shareholders, authorized and/or permitted the issuance of various false and misleading  
17 statements, and are principal beneficiaries of the wrongdoing alleged herein, and thus,  
18 could not fairly and fully prosecute such a suit even if they instituted it.

19           165. Because of their participation in the gross dereliction of fiduciary duties,  
20 and breaches of the duties of due care, good faith, and loyalty, Defendants Mona and  
21 Mackay are unable to comply with their fiduciary duties and prosecute this action. They  
22 are in a position of irreconcilable conflict of interest in terms of the prosecution of this  
23 action and defending themselves in the securities fraud class action lawsuit brought  
24 under the Securities Exchange Act of 1934.

25           166. Additionally, each of the Individual Defendants received payments,  
26 benefits, stock options, and other emoluments by virtue of their membership on the  
27 Board and their control of the Company.

28 ///



**The Individual Defendants Are Not Independent or Disinterested**

**Defendant Mona**

167. Defendant Mona is not disinterested or independent, and therefore, is incapable of considering demand because Defendant Mona (as President and CEO) is an employee of the Company who derives substantially all of his income from his employment with CannaVest, making him not independent. As such, Defendant Mona cannot independently consider any demand to sue himself for breaching his fiduciary duties to CannaVest, because that would expose him to liability and threaten his livelihood.

168. Accordingly, Defendant Mona lacks independence from Defendants Mackay and Raskin, defendants who are not disinterested and who exert influence over defendant Mona's compensation by virtue of their positions as representing the entire Compensation Committee.

169. This lack of independence and financial benefits received by Defendant Mona renders him incapable of impartially considering a demand to commence and vigorously prosecute this action.

170. Further, Defendant Mona owns 2,250,000 shares (6.69% of the beneficially owned shares) of Company stock. Where, as here, the controlling shareholder is a named defendant, demand futility is presumed.

171. Further, on March 1, 2013, Defendants Mona and Mackay caused the Company to issue a Promissory Note (the "Note") to Roen Ventures, LLC ("Roen Ventures") in exchange for loans provided and to be provided in the future in an amount of up to \$2,000,000, subsequently increased to \$6,000,000.

172. Defendant Mona was, during the Relevant Period, a member of Roen Ventures.

173. As of December 31, 2013, the principal balance of the Note was \$6,092,069.

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174. On January 27, 2014, the Company converted \$6,000,000 of the Note balance into 10,000,000 shares of common stock of the Company pursuant to the terms of the Note, as amended.

175. On January 28, 2014, Defendants Mona and Mackay caused the Company to repay Roen Ventures accrued interest on the Note in the amount of \$187,453 and principal under the Note in the amount of \$92,069.

#### **Defendant Mackay**

176. Defendant Mackay owns 16,839,518 shares (50.10 % of the beneficially owned shares) of Company stock. Where, as here, the controlling shareholder is a named defendant, demand futility is presumed.

177. Defendant MacKay is a member of Roen Ventures.

#### **Litigation Against CannaVest, Mona and Roen Ventures**

178. On March 8, 2008, Far West Industries (“Far West”) sued Mona and others for damages resulting from fraud arising out of a land transaction in California (the “California Action”).

179. On February 23, 2012, a judgment was entered in the California Action in favor of Far West against Mona and others in the amount of \$17,777,562.

180. On October 18, 2012, the judgment in the California Action was domesticated in Nevada and enforcement proceedings commenced including, but not limited to an examination of Mona as a judgment debtor, and garnishments of various accounts belonging to Mona.

181. On February 20, 2014, Far West filed a Second Amended Complaint in District Court, Clark County, Nevada entitled *Far West Industries v. CannaVest Corp., Roen Ventures, LC, Michael Mona, Jr., and Bart Mackay*, Case No.: A-14-695786-C (“*Far West action*”).

182. Though CannaVest has been dismissed from the *Far West action*, The *Far West Complaint* alleged that in the judgment debtor exam, Mona testified, among other things, that in 2013, he received in excess of \$3 million from a brokerage account, which

he then loaned to Roen Ventures, and which was then loaned by Roen Ventures to CannaVest.

183. The *Far West action* further alleged that Mona also testified during that proceeding that after the \$3 million was loaned from Roen Ventures to CannaVest, Mackay offered Mona \$500,000 to buy the note that Mona made to Roen Ventures and to buy out Mona's interest in Roen Ventures.

184. The *Far West action* further alleged that Mona agreed, and for the sum of \$500,000, sold Roen Ventures' \$3 million debt along with Mona's interest in Roen Ventures to MacKay.

### **Defendant Raskin**

185. Defendant Raskin owns 400,000 shares (1.19% of beneficially owned shares) of Company stock.

186. Below is a summary of the percent of the Company common stock beneficially owned (*see* DEF14A, dated July 2, 2014):

Name and Address of Beneficial Owner (1)	Number of Shares of Common Stock Beneficially Owned (2)	Percent of Common Stock Beneficially Owned
Mai Dun Limited, LLC (3)	5,739,518	17.07%
Roen Ventures, LLC (3)	10,000,000	29.75%
PhytoSPHERE Systems, LLC (4)	4,425,000	13.16%
Larry Raskin	400,000	1.19%
Michael Mona, Jr.	—	—
Bart Mackay (3)	16,839,518	50.10%
Allen Shubat	—	—
Joseph Dowling	—	—
Michael Mona, III	2,250,000	6.69%
All executive officers and directors as a group (three persons)	16,124,518	57.98%

## **FIRST CAUSE OF ACTION**

### **(Against The Individual Defendants for Breach of Fiduciary Duties)**

187. Plaintiff incorporates by reference and re-alleges each and every allegation contained above, as though fully set forth herein.

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1 duties with regard to prudently managing the assets and business of the Company in a  
2 manner consistent with the operations of a publicly held corporation.

3 195. As a direct and proximate result of the Individual Defendants' gross  
4 mismanagement and breaches of duty alleged herein, the Company has sustained  
5 significant damages in excess of millions of dollars.

6 196. Because of the misconduct and breaches of duty alleged herein, the  
7 Individual Defendants are liable to the Company.

8 **THIRD CAUSE OF ACTION**

9 **(Against The Individual Defendants for Abuse of Control)**

10 197. Plaintiff incorporates by reference and re-alleges each and every allegation  
11 set forth above, as though fully set forth herein.

12 198. The Individual Defendants' misconduct alleged herein constituted an abuse  
13 of their ability to control and influence the Company, for which they are legally  
14 responsible.

15 199. As a direct and proximate result of the Individual Defendants' abuse of  
16 control, the Company has sustained significant damages. As a direct and proximate  
17 result of the Individual Defendants' breaches of their fiduciary obligations of candor,  
18 good faith, and loyalty, the Company has sustained and continues to sustain significant  
19 damages. As a result of the misconduct alleged herein, the Individual Defendants are  
20 liable to the Company.

21 200. The acts and omissions of the Individual Defendants complained of in this  
22 Count have been undertaken willfully, knowingly, and maliciously, and/or with reckless  
23 disregard for their respective civil obligations, and accordingly the Company is entitled  
24 to recover punitive damages with respect to this Count.

25 **FOURTH CAUSE OF ACTION**

26 **(Against The Individual Defendants For Unjust Enrichment)**

27 201. Plaintiff incorporates by reference and re-alleges each and every allegation  
28 set forth above, as though fully set forth herein.



202. During the Relevant Period, the Individual Defendants received bonuses, stock options, and/or similar such compensation from the Company that were tied to the financial performance of the Company. The Individual Defendants were unjustly enriched thereby.

203. To remedy the Individual Defendants' unjust enrichment, this Court should order them to disgorge their unjustly obtained bonuses and compensation.

204. The acts and omissions of the Individual Defendants complained of in this Count have been undertaken willfully, knowingly, and maliciously, and/or with reckless disregard for their respective civil obligations, and accordingly the Company is entitled to recover punitive damages with respect to this Count.

**REQUEST FOR RELIEF**

**WHEREFORE**, Plaintiff demands judgment as follows:

A. Determining that this action is a proper derivative action maintainable under law, and that demand is excused;

B. Awarding, against all the Individual Defendants and in favor of the Company, the damages sustained by the Company as a result of the Individual Defendants' breaches of their fiduciary duties;

C. Directing the Company to take all necessary actions to reform and improve its corporate governance and internal procedures, to comply with the Company's existing governance obligations and all applicable laws and to protect the Company and its investors from a recurrence of the damaging events described herein;

D. Awarding to Plaintiff the costs and disbursements of the action, including reasonable attorneys' fees, accountants' and experts' fees, costs, and expenses; and

E. Granting such other and further relief as the Court deems just and proper.

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**JURY DEMAND**

Plaintiff demands a trial by jury on all issues so triable.

Dated this 11<sup>th</sup> day of December 2020.

**MATTHEW L. SHARP, LTD.**

/s/ Matthew L. Sharp

Matthew L. Sharp, Esq.

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***Counsel for Plaintiff***

**CERTIFICATE OF SERVICE**

I hereby certify that on December 11, 2020, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the following:

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/s/ Cristin B. Sharp  
An employee of Matthew L. Sharp, Ltd.

**VERIFICATION**

I, Otilda Lamont, declare that I have reviewed the Third Amended Verified Shareholder Derivative Complaint ("Complaint") prepared on behalf of CannaVest Corp., now known as CV Sciences, Inc. (hereinafter "CV") and authorize its filing. I have reviewed the allegations made in the Complaint, and to those allegations of which I have personal knowledge, I believe those allegations to be true. As to those allegations of which I do not have personal knowledge, I rely on my counsel and their investigation and for that reason believe them to be true. I further verify that I first purchased the common stock of CV on February 24, 2014, that I have held the common stock of CV continuously to the present date, that I am a current holder of CV common stock, and that it is my intention to continue to hold the common stock of CV.

I verify the foregoing statements under the penalties of perjury.

November 30<sup>th</sup>, 2020

  
OTILDA LAMONT